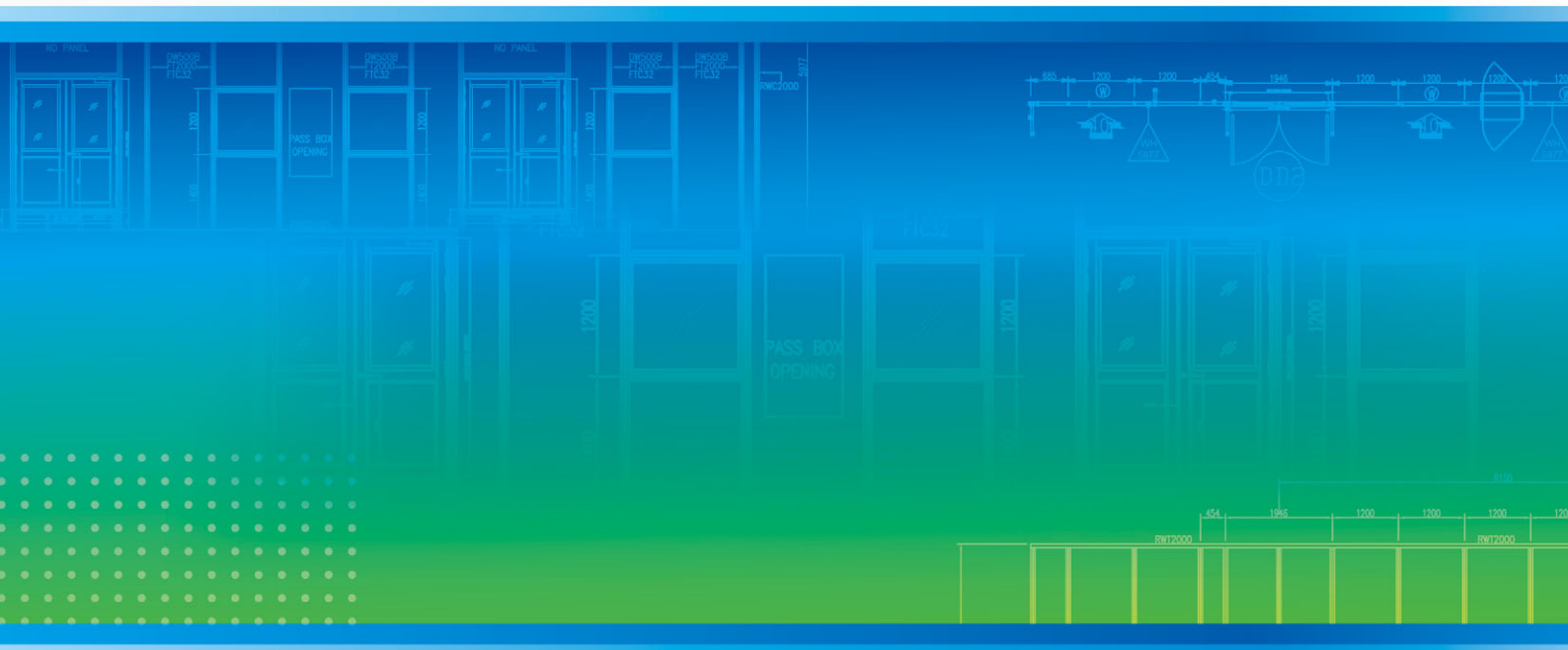


Channel Micron Holdings Company Limited 捷心隆控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

Stock Code: 2115

Global Offering



Sole Sponsor

BALLAS
C A P I T A L

Joint Bookrunners and Joint Lead Managers



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Channel Micron Holdings Company Limited 捷心隆控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	350,000,000 Shares
Number of Hong Kong Offer Shares	:	35,000,000 Shares (subject to reallocation)
Number of International Offer Shares	:	315,000,000 Shares (subject to reallocation)
Maximum Offer Price	:	HK\$0.40 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Nominal Value	:	HK\$0.01 per Share
Stock Code	:	2115

Sole Sponsor

BALLAS
CAPITAL

Joint Bookrunners and Joint Lead Managers



Joint Lead Managers
(in alphabetical order)



利盟證券有限公司
Grand Partners Securities Limited



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners, on behalf of the Underwriters, and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 28 September 2020 and, in any event, not later than 12:00 noon on Monday, 5 October 2020. The Offer Price will be not more than HK\$0.40 and is currently expected to be not less than HK\$0.36 unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.40 for each Share together with a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK\$0.40.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for termination" for further details.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in "Risk Factors" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold only outside the United States in offshore transactions in accordance with Regulation S.

22 September 2020

EXPECTED TIMETABLE ⁽¹⁾

We will issue an announcement in Hong Kong to be published on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk) if there is any change in the following expected timetable of the Hong Kong Public Offering:

Hong Kong Public Offering commences and

WHITE and **YELLOW** Application Forms

available from 9:00 a.m. on
Tuesday, 22 September 2020

Latest time to complete electronic applications
under **HK eIPO White Form** service through
one of the below ways⁽²⁾:

(1) the **IPO App**, which can be downloaded by searching
“**IPO App**” in App Store or Google Play or downloaded at
www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp

(2) the designated website www.hkeipo.hk 11:30 a.m. on
Friday, 25 September 2020

Application lists open⁽³⁾ 11:45 a.m. on
Friday, 25 September 2020

Latest time to: (1) lodge **WHITE** and **YELLOW** Application
Forms; (2) complete payment of **HK eIPO White Form**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s); and (3) give **electronic**
application instructions to HKSCC⁽⁴⁾

12:00 noon on
Friday, 25 September 2020

Application lists close⁽³⁾ 12:00 noon on
Friday, 25 September 2020

Expected Price Determination Date⁽⁵⁾ Monday, 28 September 2020

Announcement of the final Offer Price, the level of indication
of interest in the International Offering, the level of
applications in the Hong Kong Public Offering and the
basis of allocation of the Hong Kong Offer Shares to be
published on our website (www.micron.com.my) and
the Stock Exchange's website (www.hkexnews.hk)
on or before⁽⁹⁾

Wednesday, 7 October 2020

Results of allocations under the Hong Kong Public Offering
(with successful applicants' identification document
numbers, where appropriate) to be available through a
variety of channels including our website
(www.micron.com.my) and the Stock Exchange's
website (www.hkexnews.hk) (for further details, see “How
to Apply for Hong Kong Offer Shares — 11. Publication of
Results”) from⁽⁹⁾

Wednesday, 7 October 2020

EXPECTED TIMETABLE ⁽¹⁾

Results of allocations in the Hong Kong Public Offering will be available at “IPO Results” function in the **IPO App** or at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID Number/Business Registration Number” function on a 24-hour basis from⁽⁹⁾ Wednesday, 7 October 2020

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before^{(6), (7), (8), (9)} Wednesday, 7 October 2020

Despatch/Collection of Share certificates on or before^{(6), (7), (9)} Wednesday, 7 October 2020

Dealings in the Shares on the Stock Exchange expected to commence on⁽⁹⁾ 9:00 a.m. on Thursday, 8 October 2020

The application for the Hong Kong Offer Shares will commence on Tuesday, 22 September 2020 through Friday, 25 September 2020. The gap between the closing date of the application lists and the Listing Date is longer than the usual market practice of six days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 7 October 2020. Prospective investors should be aware that the Price Determination Date is expected to be on or around Monday, 28 September 2020 and the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 8 October 2020.

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. You will not be permitted to submit your application through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 25 September 2020, the application lists will not open on that day. See “How to apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists”.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” for further details.
5. The Price Determination Date is expected to be on or around Monday, 28 September 2020. If, for any reason, the Offer Price is not agreed by 12:00 noon on Monday, 5 October 2020 between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse accordingly.

EXPECTED TIMETABLE ⁽¹⁾

6. Share certificates for the Offer Shares are expected to be issued on or before Wednesday, 7 October 2020 but will only become valid certificates of title at 8:00 a.m. on Thursday, 8 October 2020 provided that: (a) the Global Offering has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
7. Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required in their Application Forms that they may collect Shares certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 7 October 2020 or any other date notified by us as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by sending their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

Applicants who have applied on **YELLOW** Application Forms may collect their refund cheque (if applicable) in person but may not collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. Applicants should refer to "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies".
8. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in "How to Apply for Hong Kong Offer Shares".
9. In case a typhoon warning signal no.8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Tuesday, 22 September 2020 to Thursday, 8 October 2020, then the day of (i) announcement of results of allocations in the Hong Kong Public Offer; (ii) despatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a cleanroom⁽¹⁾ wall and ceiling systems and cleanroom equipment provider based in the PRC and Malaysia, with a proven track record of engaging in cleanroom projects in the PRC and Southeast Asia. We have a market share of 1.1%⁽²⁾ in the PRC cleanroom wall and ceiling system market, while we have a market share of 8.3%⁽²⁾ in the Malaysian cleanroom facility market. We provide a comprehensive range of cleanroom products and services, including the development, production and installation of cleanroom wall and ceiling systems, and cleanroom equipment such as fan filter units (which filter and regulate air flow in a cleanroom), air showers, pass boxes and HEPA filters. Our products are mainly used in cleanrooms of different classes in various cleanroom standards, including the most stringent cleanroom class under the FED-STD-209E standard.

Our Group was founded in 1989 and has grown along with the cleanroom industry in Asia from the 1990's to the present. We have established our “Channel Systems” brand for our cleanroom wall and ceiling systems and our “Micron” brand for our cleanroom equipment. We take pride in our ability to produce nearly “zero-outgassing” cleanroom wall and ceiling systems, which keep emission of volatile organic compounds that contaminate the manufacturing facilities to a minimum. We have a strong track record of engaging in over 2,000 cleanroom contracts for various industry applications during the Track Record Period. The consistent quality of our products enables our customers to meet stringent cleanroom requirements, and customers and end users that are top players in the downstream industries continuously entrust us as their pre-approved suppliers. We were regularly engaged to provide cleanroom products and installation services for manufacturing facilities of well-known manufacturers of semiconductor and electronic products during the Track Record Period.

In 2019, our customers included all of the top five cleanroom facility main contractors in the PRC⁽²⁾. The end users of our cleanroom products during the Track Record Period include the largest semiconductor foundry globally⁽²⁾, as well as four of the five largest semiconductor foundries in the PRC⁽²⁾. As we are able to offer a wide range of specification options for our products for broad industrial applications, our products are utilised in different industries that require cleanroom facility, ranging from semiconductor and electronic industries to pharmaceutical and life science industries.

We have two well-established manufacturing facilities. Our PRC Factory, with a GFA of 2,371 sq.m., mainly manufactures cleanroom wall and ceiling systems for our PRC customers. For FY2017, FY2018, FY2019 and 3M2020, the utilisation rate⁽³⁾ of our PRC Factory was approximately 69.0%, 97.8%, 99.9% and 70.1%, respectively. Our Malaysia Factory, with a GFA of 4,515 sq.m., manufactures both cleanroom wall and ceiling systems and cleanroom equipment for sales in Southeast Asia and other overseas countries. For FY2017, FY2018, FY2019 and 3M2020, the utilisation rate of our Malaysia Factory for cleanroom wall and ceiling system production was approximately 98.4%, 99.8%, 99.9% and 60.3%, respectively, and that for cleanroom equipment production was approximately 87.6%, 93.6%, 92.1% and 44.6%, respectively⁽³⁾. Our utilisation rates in our PRC Factory and Malaysia Factory dropped in 3M2020 due to suspension in our operations and on-going projects as a result of the lockdown measures and transportation restrictions as a result of COVID-19. However, none of our projects and contracts have been terminated or aborted, nor have any of our customers expressed an

Notes:

- (1) A cleanroom is a contained environment equipped with systems and equipment to reduce particulate contamination which may adversely affect the operation process, and to control other environmental parameters such as temperature, humidity and pressure.
- (2) In terms of revenue in 2019, according to the F&S Report.
- (3) Please see the basis and assumptions used for the calculation of the utilisation rate set out in “Business — Production Capacity and Utilisation”.

SUMMARY

intention to terminate or abort our projects and contracts, as a result of the outbreak of COVID-19. We are resuming our business operations to the extent permissible under the applicable government regulations, and have been in the progress of completing our ongoing projects and contracts. We expect the utilisation rate will gradually return to normal level upon full resumption of our operations and projects. We also rented the Additional Warehouse from April 2020 for one year with a GFA of approximately 1,700 sq.m. to provide immediate and temporary storage support such that we could free up space at our Malaysia Factory to cater for the requirement of the existing projects and the need to increase the capacity quickly to capture the possible higher demand from potential contracts, details of which is set out under “Business — Our Strategies — Strategies for the Southeast Asian Market — Expand and relocate our production facility in Malaysia to cater for our growth in Southeast Asia and other countries”.

While we provide our products and services mainly in the PRC, Malaysia, Philippines and Singapore, we have also supplied cleanroom products and services in countries in Europe and the Middle East. We believe that with our customer network, track record and experience in supplying products to different countries, we can expand our business in Southeast Asia and penetrate further into our existing markets.

OUR BUSINESS MODEL

We principally generate our revenue from (i) the manufacturing and providing installation services for cleanroom wall and ceiling systems (including cleanroom doors and windows which revenue generated are recognised over time, generally by stages in accordance with completion); and (ii) the manufacturing and sale of cleanroom wall and ceiling systems (without installation) and equipment (including mainly fan filter units, air showers, pass boxes, HEPA boxes and clean booths/benches which revenue generated are recognised at a point in time). Our cleanroom wall and ceiling systems are manufactured and sold under our “Channel Systems” brand, while our cleanroom equipment are manufactured and sold under our “Micron” brand.

Set forth below is a breakdown of our revenue by nature of contracts.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Cleanroom projects	54,534	39.4	99,245	55.9	142,736	69.2	33,483	69.4	17,360	65.2
Sales of goods	83,735	60.6	78,303	44.1	63,433	30.8	14,756	30.6	9,276	34.8
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Set forth below is a breakdown of our revenue by business segment.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Cleanroom wall and ceiling systems	118,341	85.6	151,291	85.2	177,258	86.0	41,848	86.8	22,952	86.2
Cleanroom equipment	13,056	9.4	16,904	9.5	14,536	7.0	3,738	7.7	781	2.9
Others ^(Note)	6,872	5.0	9,353	5.3	14,375	7.0	2,653	5.5	2,903	10.9
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note: “Others” mainly include trading of cleanroom products and provision of cleanroom preventive maintenance service.

SUMMARY

Set forth below is a geographical breakdown of our revenue, based on the locations at which the services were provided or the goods delivered for the periods indicated.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
The PRC	56,101	40.6	95,980	54.1	110,947	53.8	34,337	71.2	10,412	39.1
Malaysia	35,400	25.6	39,138	22.0	51,504	25.0	1,692	3.5	3,063	11.5
Philippines	20,089	14.5	21,191	11.9	25,703	12.5	7,671	15.9	1,406	5.3
Singapore	17,166	12.4	14,471	8.2	11,008	5.3	2,863	5.9	7,768	29.2
Others	9,513	6.9	6,768	3.8	7,007	3.4	1,676	3.5	3,987	14.9
	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note: "Others" includes various countries and locations in Hong Kong, Thailand, Vietnam, Bangladesh, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

From FY2017 to FY2018, our revenue (i) from PRC increased by approximately 71.1% mainly due to the increase in demand arising from semiconductor industry in the PRC; (ii) from each of Malaysia and Philippines remained stable; and (iii) from Singapore declined by approximately 15.7% due to decline in revenue from cleanroom walls and ceilings which in turn was led by drop in sizable contracts.

From FY2018 to FY2019, our revenue (i) from PRC increased by approximately 15.6% mainly due to the increase in demand arising from semiconductor industry in the PRC; (ii) from Malaysia increased by approximately 31.6% mainly because we undertook a sizeable contract in Malaysia for a new cleanroom facility project for a U.S. leading semiconductor company which commenced in July 2019 (the "2019 Malaysia Contract"); (iii) from Philippines increased by approximately 21.3% mainly due to increase in demand for our cleanroom equipment and other products; and (iv) from Singapore declined by approximately 23.9% due to drop in revenue from cleanroom walls and ceilings which in turn was led by drop in sizable contracts.

From 3M2019 to 3M2020, our revenue (i) from PRC and Philippines decreased by approximately 69.7% and approximately 81.7%, respectively, as a result of COVID-19; (ii) from Malaysia increased by approximately 81.0% due to the 2019 Malaysia Contract which commenced in July 2019; (iii) from Singapore increased by 1.7 times due to the recognition of engineering service income from our data centre facility project in Singapore.

For details, please refer to the "Financial Information" section of this Prospectus.

The following table sets forth a geographical breakdown of our gross profit, based on the locations at which the services were provided or the goods delivered during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit/ (loss) margin	Gross profit/ (loss) margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
The PRC	27,326	48.7	37,007	38.6	43,632	39.3	15,780	46.0	3,204	30.8
Malaysia	13,505	38.1	17,572	44.9	21,998	42.7	663	39.2	(518)	(16.9)
Philippines	6,102	30.4	7,362	34.7	8,802	34.2	2,691	35.1	505	35.9
Singapore	8,612	50.2	6,212	42.9	3,810	34.6	1,016	35.5	6,930	89.2
Others	3,152	33.1	1,820	26.9	2,513	35.9	659	39.3	1,460	36.6
	58,697	42.5	69,973	39.4	80,755	39.2	20,809	43.1	11,581	43.5

SUMMARY

Note: “Others” includes various countries and locations in Hong Kong, Thailand, Vietnam, Bangladesh, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

From FY2017 to FY2018, our gross profit (i) from PRC increased by approximately 35.4% mainly due to increase in revenue which is partially offset by the drop in gross profit margin as lowered our profit margin for installation services and increased our purchase of semi-finished wall and ceiling panels for further processing to meet our production needs in FY2018; (ii) from Malaysia and Philippines increased by approximately 30.1% and approximately 20.6%, respectively, mainly due to increase in gross profit margin as the contracts we undertook were more complex and had a higher gross profit margin; and (iii) from Singapore declined by approximately 27.9% due to drop in both revenue and gross profit margin mainly as a result of drop in sizeable contracts, which usually have a higher gross profit margin, we undertook.

From FY2018 to FY2019, our gross profit (i) from PRC, Malaysia and Philippines increased by approximately 17.9%, 25.2% and 19.6%, respectively, which is in line with the respective revenue growth; and (ii) from Singapore declined by approximately 38.7% due to the decrease in both revenue and gross profit margin mainly as a result of drop in sizeable contracts, which usually have a higher gross profit margin, we undertook.

For 3M2020, given that we recorded a substantially lower revenue and suffered a lower operational efficiency due to COVID-19, our gross profit from PRC and Philippines declined by approximately 79.7% and 81.2% respectively and recorded a gross loss from Malaysia of approximately RMB0.5 million. For Singapore, we were able to record an increase of approximately 5.8 times in gross profit which is mainly attributable to an engineering service income of RMB6.5 million from our data centre facility project in Singapore that involved minimal direct costs and thus enjoyed a relatively high gross profit margin.

For details, please refer to the “Financial Information” section of this Prospectus.

Set forth below is a breakdown of our revenue by application of our products and services.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Semiconductor ⁽¹⁾	120,975	87.5	162,755	91.7	197,398	95.8	43,662	90.5	17,971	67.5
Pharmaceutical ⁽²⁾	14,508	10.5	5,236	2.9	5,230	2.5	1,478	3.1	618	2.3
Others ⁽³⁾	2,786	2.0	9,557	5.4	3,541	1.7	3,099	6.4	8,047	30.2
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Notes:

1. “Semiconductor” mainly includes manufacturers of semiconductors and electronic products such as LED/LCD display.
2. “Pharmaceutical” mainly includes manufacturers of pharmaceutical, biotechnology and nutritional products and medical institutions.
3. “Others” includes data centres, academic institutions and automotive industries.

We adopt a cost-plus pricing policy generally with a mark-up, which is determined on a contract by contract basis and after taking into consideration, among others, the (i) agreed specifications of the contract, (ii) availability of our manpower, machinery and resources, (iii) costs and expenses for R&D (where applicable), production, raw materials, subcontracting, shipping and manpower, (iv) our relationship with the customer, (v) historical prices for the customer; and (vi) market demand and the prevailing market prices. See “Business — Sales and marketing — Pricing policy” for details.

SUMMARY

The following table sets out the movement of the number of our cleanroom projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017	FY2018	FY2019	3M2020	From 1 April 2020 to the Latest Practicable Date
Opening number of cleanroom projects	11	11	14	12	13
Number of new cleanroom projects awarded	36	36	32	2	6
Number of substantially completed cleanroom projects	(36)	(33)	(34)	(1)	(9)
Ending number of projects	<u>11</u>	<u>14</u>	<u>12</u>	<u>13</u>	<u>10</u>

The following table sets out the movement of backlog of our cleanroom projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000	3M2020 RMB'000	From 1 April 2020 to the Latest Practicable Date RMB'000
Opening contract value brought forward from last year/period	15,325	48,917	46,845	81,343	72,652
Awarded contract sum of new cleanroom projects ⁽¹⁾	87,024	87,826	157,248	4,528	44,382
Variation orders	1,102	9,347	19,986	4,141	3,159
Revenue recognised ⁽²⁾	(54,534)	(99,245)	(142,736)	(17,360)	(20,660)
Ending contract value on hand as at the year/period end date	<u>48,917</u>	<u>46,845</u>	<u>81,343</u>	<u>72,652</u>	<u>99,533</u>

Note:

- The awarded contract sum of new projects for FY2017, FY2018, FY2019 and 3M2020 is the aggregate amount of original contract sum based on the initial agreement between our customer and us and does not include additions or modifications due to subsequent variation orders, and, as such, the final revenue recognised from a contract may differ from the awarded contract sum. The aggregate amount of original contract sum of new cleanroom projects for the period from 1 April 2020 to the Latest Practicable Date is the aggregate amount of original contract sum of such contracts specified in the contracts.
- The revenue recognised represents our revenue derived from cleanroom projects during the Track Record Period and from 1 April 2020 to 30 June 2020.

SUMMARY

We enjoy preferential tax treatment in the PRC and Malaysia. In the PRC, Channel Systems (Shanghai) has been identified as a High-tech Enterprise according to the Notice on Amending and Issuing the Measures for Determination and Administration of High-tech Enterprises (《高新技術企業認定管理辦法》), and therefore enjoy tax benefits of corporate income tax at the reduced tax rate of 15%. In Malaysia, Micron Technology and Channel Systems (Asia) are licensed manufacturing warehouses and are exempted from import tax over raw materials and components imported for manufacturing new finished goods as long as all requirements under such scheme are met, including that 80% of the end products are for export purposes. Based on the information available to, and the best knowledge of, the Malaysia Legal Advisers, Micron Technology and Channel Systems (Asia) are in compliance of the terms and conditions under the LMW License. See “Regulatory Overview — Laws and regulations of Malaysia — V. Customs Act 1967” and “— Laws and regulations of the PRC — J. Legal supervision over the Chinese tax — 1. Enterprise Income Tax (“EIT”)” for details.

OUR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

We have a strong customer base mainly comprising of main contractors and cleanroom design and engineering companies. We sell our products and services directly to our customers. During the Track Record Period, we provided our products and services to over 400 customers. We have an average business relationship of over 11 years with our top five customers during the Track Record Period. We believe our well-established relationship provides us with a solid foundation for recurring business and future growth. For FY2017, FY2018, FY2019 and 3M2020, our five largest customers accounted for approximately 61.8%, 71.3%, 65.3% and 78.2% of our total revenue, while our largest customer accounted for approximately 22.5%, 50.5%, 36.8% and 24.3% of our total revenue, respectively. To the best of our Directors’ knowledge, during the Track Record Period, save for Sum Technic, all of our top five customers were Independent Third Parties. See “Business — Our customers” for details.

Our suppliers are mainly suppliers of components for cleanroom, aluminum and steel coil. We had over 360 approved suppliers as at the Latest Practicable Date. For FY2017, FY2018, FY2019 and 3M2020, the cost of our direct materials was approximately RMB51.3 million, RMB62.4 million, RMB83.2 million and RMB7.1 million, representing approximately 64.4%, 58.0%, 66.3% and 47.3% of our total cost of sales, respectively.

During the Track Record Period, we outsourced the on-site cleanroom installation services. For FY2017, FY2018, FY2019 and 3M2020, subcontracting costs were approximately RMB11.4 million, RMB27.9 million, RMB25.7 million and RMB4.3 million, representing approximately 14.4%, 26.0%, 20.5% and 28.3% of our total cost of sales, respectively. See “Business — Raw materials, suppliers and subcontractors” for details.

OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths are as follows: (i) technical expertise in the production of nearly zero-outgassing cleanroom wall and ceiling systems and extensive cleanroom engineering experience; (ii) proven track record of cleanroom projects and well-established customer relationship with major cleanroom contractors and facility owners; (iii) comprehensive cleanroom products and services from development, production and supply of cleanroom wall and ceiling systems and cleanroom equipment to cleanroom installation services; and (iv) well-positioned to capture the rising opportunities of the cleanroom industries in the PRC and Southeast Asia. See “Business — Our Strengths” for details.

SUMMARY

OUR BUSINESS STRATEGIES

We intend to implement the following business strategies to expand our market share and profitability: (i) *Strategies for the PRC market* – Increase our production capacity and capabilities for cleanroom wall and ceiling systems and expand our cleanroom equipment business to the PRC market to diversify our products offering; (ii) *Strategies for the Southeast Asia market* – Expand and relocate our production facility in Malaysia to cater for our growth in Southeast Asia and other countries; (iii) Continue to invest in R&D to enhance existing products and diversify our product offering; and (iv) Expand our sales and marketing network and enhancing our engineering and business support functions. See “Business — Our Strategies” for details.

USE OF PROCEEDS

Assuming an Offer Price of HK\$0.38 (being the mid-point of the indicative Offer Price range), we estimate that we will receive net proceeds of approximately HK\$62.7 million from the Global Offering after deducting the underwriting commissions, the incentive fee that can be payable to the Joint Bookrunners (or any one of them) in the Company’s sole and absolute discretion and other estimated expenses in connection with the Global Offering. We intend to use the net proceeds from the Global Offering for the following purposes:-

- (i) approximately 34.0%, or HK\$21.3 million, for the expansion and renovation of our production facilities in the PRC;
- (ii) approximately 34.7%, or HK\$21.8 million, for the expansion of our production facilities in Malaysia;
- (iii) approximately 9.0%, or HK\$5.6 million, for strengthening our sales and marketing, and engineering and support functions in the PRC and Malaysia by hiring additional staff;
- (iv) approximately 3.5%, or HK\$2.2 million, for strengthening our accounts and administration functions and upgrading our information technology systems to cater for our business growth;
- (v) approximately 11.9%, or HK\$7.5 million, for our R&D projects; and
- (vi) approximately 6.9%, or HK\$4.3 million, for our general working capital.

See “Future Plans and Use of Proceeds” for details of a summary of the timeline for implementation of our business strategies.

SUMMARY

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

Key Information from the Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following is a summary of the consolidated statements of profit and loss of our Group for the Track Record Period prepared on the basis set out in the audited financial statements set out in the Accountants' Report of our Group in Appendix I to this prospectus.

	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000	3M2019 RMB'000 (unaudited)	3M2020 RMB'000
Revenue	138,269	177,548	206,169	48,239	26,636
Cost of sales	(79,572)	(107,575)	(125,414)	(27,430)	(15,055)
Gross Profit	58,697	69,973	80,755	20,809	11,581
Other income	1,343	1,753	1,919	264	301
Other gains and (losses)	(2,017)	110	939	(275)	522
Selling and distribution costs	(7,139)	(8,397)	(9,021)	(1,640)	(2,264)
Administrative and other operating expenses	(16,413)	(15,744)	(23,376)	(3,557)	(2,916)
Research and development expenses	(6,111)	(5,362)	(6,240)	(1,310)	(900)
Listing expenses	-	(1,405)	(11,444)	(1,052)	(1,850)
Finance costs	(280)	(220)	(684)	(163)	(150)
Profit before income tax	28,080	40,708	32,848	13,076	4,324
Income tax expense	(6,054)	(8,438)	(6,919)	(2,378)	(1,521)
Profit for the year/period	22,026	32,270	25,929	10,698	2,803
Profit for the year/period attributable to:					
Equity holders of the Company	13,899	20,696	18,184	6,406	2,776
Non-controlling interests	8,127	11,574	7,745	4,292	27
	22,026	32,270	25,929	10,698	2,803

We recorded net profit of approximately RMB22.0 million, RMB32.3 million, RMB25.9 million and RMB2.8 million for FY2017, FY2018, FY2019 and 3M2020, representing net profit margin of approximately 15.9%, 18.2%, 12.6% and 10.5%, respectively. Our Adjusted Net Profit (non-HKFRS measure⁽¹⁾) for FY2018, FY2019 and 3M2020 were approximately RMB33.7 million, RMB37.4 million and RMB4.7 million and our Adjusted Net Profit Margin (non-HKFRS measure⁽¹⁾) were approximately 19.0%, 18.1% and 17.5% for the corresponding periods, respectively. The relatively lower net profit margin of approximately 15.9% for FY2017 was mainly attributable to the recognition of foreign exchange loss of approximately RMB2.8 million for FY2017. The drop in net profit margin in FY2019 as compared to FY2018 was mainly attributable to the increase in listing expenses and administrative and other operating expenses. The decrease in net profit margin in 3M2020 was mainly attributable to the decrease in revenue and hence lower gross profit as a result of the suspension in our operations and on-going projects which in turn is caused by the lockdown measures and transportation restrictions as a result of COVID-19. In fact, the Adjusted Net Profit Margin (non-HKFRS measure⁽¹⁾) for 3M2020 of approximately 17.5% was only slightly lower than that for FY2019 of approximately 18.1%.

Note:

- The terms of Adjusted Net Profit and Adjusted Net Profit Margin are not defined under HKFRS. We believe that these non-HKFRS measures provide useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed "Financial Information — Summary of Results of Operations — Non-HKFRS measures" for further details.

SUMMARY

Non-HKFRS measures

In addition to the HKFRS measures in our consolidated financial statements, we also use the non-HKFRS financial measure of adjusted profit (excluding Listing expenses), adjusted return on equity and adjusted return on total assets to evaluate our operating performance in this prospectus. We believe that these non-HKFRS measures provide useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods.

The following table sets forth our unaudited adjusted profit for the year/period indicated after excluding the effect of the Listing expenses:

	FY2017	FY2018	FY2019	3M2019	3M2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Profit for the year/period	22,026	32,270	25,929	10,698	2,803
<i>Add: Listing expenses</i>	—	1,405	11,444	1,052	1,850
Adjusted profit for the year/period	22,026	33,675	37,373	11,750	4,653

Adjusted profit for the year/period is not a financial measure under the HKFRS and is presented to provide information for evaluation and comparison of our financial results during the Track Record Period. Although the non-HKFRS financial measures are reconcilable to the line items in the consolidated financial statements, they should not be considered measures comparable to items in the consolidated financial statements in accordance with the HKFRS. These measures may not be comparable to other similarly titled measures used by other companies.

Key Information from the Consolidated Statements of Financial Position

The following table sets forth the breakdown of our financial position as at the dates indicated.

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	34,109	36,195	37,627	34,655
Current assets	123,501	152,932	177,929	161,010
Total assets	157,610	189,127	215,556	195,665
Current liabilities	41,384	44,020	68,910	50,641
Non-current liabilities	3,404	5,264	4,745	4,255
Total liabilities	44,788	49,284	73,655	54,896
Net current assets	82,117	108,912	109,019	110,369
Equity attributable to equity holders of the Company	81,045	99,921	141,245	140,086
Non-controlling interests	31,777	39,922	656	683
Total equity	112,822	139,843	141,901	140,769

While we recorded a net profit of approximately RMB2.8 million for 3M2020, we also recorded a revaluation deficit (after the deferred tax effect) of approximately RMB1.2 million on our freehold land and building and an exchange loss of approximately RMB2.8 million on translation of our foreign operations into RMB, such net effect resulted in the decrease in our total equity of approximately RMB1.1 million from approximately RMB141.9 million as at 31 December 2019 to approximately RMB140.8 million as at 31 March 2020.

SUMMARY

Our trade receivables turnover days (including contract assets) were approximately 137.8 days, 122.6 days, 138.2 days and 281.1 days for FY2017, FY2018, FY2019 and 3M2020, respectively.

Our trade receivables turnover days (including contract assets) increased to approximately 138.2 days for FY2019 due to the increase in trade receivables and contract assets balance of approximately 68.4% and 1.2 times, respectively which in turn was mainly due to the increase in revenue and in particular, the relatively higher revenue recognised in November and December 2019.

Our trade receivables turnover days (including contract assets) further increased to approximately 281.1 days in 3M2020 mainly attributable to (i) delay in payment due to COVID-19; in particular, the suspension of our operations during 3M2020 affected our ability to follow up with our customers on collection of trade receivables; similarly, our customers also faced challenges in processing payments amid COVID-19; (ii) the significant increase in trade receivables aged “91-180 days” and “over 365 days” ; and (iii) the fact that we recorded low revenue recognised for 3M2020 but our trade receivables (including contract assets) decreased by a lesser extent.

For details, please refer to the Financial Information section of this Prospectus.

Key Information from the Consolidated Statement of Cash Flows

The following table sets forth the condensed summary of our consolidated statements of cash flows for the periods indicated.

	FY2017	FY2018	FY2019	3M2020
	RMB'000	RMB'000	RMB'000	RMB'000
Operating profit before working capital changes	31,509	42,385	37,260	4,315
Changes in working capital	(23,314)	9,335	(36,606)	6,486
Income taxes (paid)/refund, net	(9,215)	(9,479)	(5,108)	397
Net cash (used in)/generated from operating activities	(1,020)	42,241	(4,454)	11,198
Net cash (used in)/generated from investing activities	(1,218)	(1,907)	(4,781)	9,029
Net cash (used in)/generated from financing activities	(4,536)	1,011	(25,165)	3,373
Net (decrease)/increase in cash and cash equivalents	(6,774)	41,345	(34,400)	23,600
Cash and cash equivalents at the beginning of year/period	32,582	26,278	68,411	34,621
Effect of foreign exchange rate changes	470	788	610	(1,200)
Cash and cash equivalents at the end of the year/period	26,278	68,411	34,621	57,021

Our customers normally settle their trade receivables with us after taking into account of (i) our credit terms; and (ii) payment terms as stated in the contracts. In the contracts with some of our customers, there is a payment term that we are only entitled to payment of our services after they have received the corresponding payments from their customers (i.e. the facility owners).

Therefore in terms of cash flow requirement, we normally pay our trade payables sooner than we receive payments from our customers. For FY2017 to FY2019, our trade receivables turnover days (including contract assets) ranged from approximately 123 days to 138 days which are longer than our trade payables turnover days ranging from approximately 70 days to 85 days. Hence, higher level of working capital is normally required when the business is growing but the level of working capital may fluctuates from time to time due to the timing of payment of our trade and other payables and receipt of our trade receivables and contract assets.

SUMMARY

For FY2017, we generated approximately RMB31.5 million positive cash flow from our operations before working capital changes but such was offset by the net working capital outflow of approximately RMB23.3 million and income tax paid of approximately RMB9.2 million. As a result, we recorded net cash used in operating activities of approximately RMB1.0 million. During the year, we experienced a net working capital outflow of approximately RMB23.3 million which was mainly because (i) increase in trade and other receivables of approximately RMB23.8 million and contract assets of approximately RMB5.8 million was more than the net increase in trade and other payables and contract liabilities of approximately RMB10.3 million and (ii) increase in inventory of approximately RMB4.0 million. The increase in trade and other receivables and contract assets reflected the increase in revenue in FY2017 (resulting in higher receivables) and higher level of trade receivables and contract assets which were not yet due for payment as significant amount of works was only certified by our customer relating to projects in the PRC before the year end.

For FY2019, we generated approximately RMB37.3 million positive cash flow from our operations before working capital changes but such was offset by the net working capital outflow of approximately RMB36.6 million and net income tax paid of approximately RMB5.1 million. As a result, we recorded net cash used in operating activities of approximately RMB4.5 million. During the year, we experienced a net working capital outflow of approximately RMB36.6 million which was mainly because (i) increase in trade and other receivables of approximately RMB34.6 million and contract assets of approximately RMB28.0 million was more than the increase in trade and other payables and contract liabilities of approximately RMB24.0 million and (ii) decrease in inventory by approximately RMB2.0 million. The increase in trade and other receivables and contract assets reflected the increase in turnover in FY2019 (resulting in higher receivables) and higher level of trade receivables and contract assets which were not yet due for payment as a result of the relatively higher revenue recognised in November and December 2019.

We will adopt several policies to improve our operating cash flow, which include (i) preparing cash flow plans for projects with over RMB3.5 million contract value; (ii) regularly reviewing the cash flow plans for projects with over RMB3.5 million contract value to identify and address any potential shortfall in short-term cash flow; (iii) regularly analysing and comparing the cash flow plan against the actual cash flow to investigate the reasons of variances; (iv) considering the cash flow position of our Group before submitting any tender; (v) liaising with our customers and overseeing the latest certified progress for our customers; (vi) closely monitoring the collection status of our trade receivables and actively following up with our customers for payment; (vii) utilising the credit terms provided by our suppliers; and (viii) utilising our banking facilities, if any, to cover any potential shortfall in our cash flow position.

Key Financial Ratios

The following table sets forth our key financial ratios as at the dates/for the periods indicated.

	<i>Notes</i>	FY2017	FY2018	FY2019	3M2020
Return on equity (%)	<i>(1) and (9)</i>	17.1	20.7	12.9	7.9
Return on total assets (%)	<i>(2) and (9)</i>	14.0	17.1	12.0	5.7
<i>Non-HKFRS Measures</i>					
Adjusted return on equity (%)	<i>(3), (9) and (10)</i>	17.1	21.5	19.6	13.2
Adjusted return on total assets (%)	<i>(4), (9) and (10)</i>	14.0	17.8	17.3	9.5

SUMMARY

	Notes	As at 31 December			As at 31 March
		2017	2018	2019	2020
Net debt to equity ratio	(5)	Net cash	Net cash	Net cash	Net cash
Gearing ratio (%)	(6)	5.1	13.7	12.5	14.6
Current ratio (times)	(7)	3.0	3.5	2.6	3.2
Quick ratio (times)	(8)	2.7	3.2	2.4	2.9

Notes:

- (1) Return on equity is calculated based on our net profit attributable to our Shareholders for the reporting year/period divided by the total equity attributable to our Shareholders as at the end of the reporting year/period and multiplied by 100%.
- (2) Return on total assets is calculated based on our net profit for each reporting year/period divided by the total assets as at the end of the reporting year/period and multiplied by 100%.
- (3) Adjusted return on equity is calculated based on our net profit attributable to our Shareholders (before Listing expenses attributable to equity holders of our company) for each reporting year/period divided by total equity attributable to our Shareholders as at the end of that reporting year/period and multiplied by 100%.
- (4) Adjusted return on total assets is calculated based on our Adjusted Net Profit for each reporting year/period divided by total assets as at the end of that reporting year/period and multiplied by 100%.
- (5) Net debt to equity ratio is calculated based on our net debt divided by total equity and multiplied by 100%. Net debt is defined as total borrowings and lease liabilities minus cash and cash equivalents.
- (6) Gearing ratio is calculated based on our bank borrowings and lease liabilities divided by total equity as at the end of the reporting year/period and multiplied by 100%.
- (7) Current ratio is calculated based on total current assets divided by the total current liabilities as at the end of the reporting year/period.
- (8) Quick ratio is calculated based on total current assets minus inventories divided by the total current liabilities as at the end of the reporting year/period.
- (9) Calculation of return on equity, return on total assets, adjusted return on equity and adjusted return on total assets are on a full year basis.
- (10) The terms of adjusted return on equity and adjusted return on total assets are not defined under HKFRS. We believe that these non-HKFRS measures provide useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed "Financial Information — Summary of Results of Operations — Non-HKFRS measures" for further details.

The increase in our gearing ratio from 31 December 2017 to 31 December 2018 was primarily due to the increase in our borrowings by approximately RMB11.6 million as at 31 December 2018.

The increase in our gearing ratio from 31 December 2019 to 31 March 2020 was primarily due to the increase in borrowings by approximately RMB3.3 million as at 31 March 2020.

The decrease in return on equity and return on total assets from FY2018 to FY2019 was mainly due to the decrease in net profit resulting from the Listing expenses incurred for FY2019.

The decrease in return on equity and return on total assets from FY2019 to 3M2020 was mainly due to the significant decrease in net profit (after taking into account the Listing expenses) resulting from the decrease in revenue for 3M2020.

SUMMARY

Key Operating Indicators

The following table sets forth the analysis of gross profit with respective gross profit margins by our business segments during the Track Record Period.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %
Cleanroom wall and ceiling systems	51,287	43.3	58,240	38.5	70,366	39.7	18,711	44.7	10,538	45.9
Cleanroom equipment	4,911	37.6	7,638	45.2	4,959	34.1	1,266	33.9	92	11.8
Others ^(note)	2,499	36.4	4,095	43.8	5,430	37.8	832	31.4	951	32.8
Total	58,697	42.5	69,973	39.4	80,755	39.2	20,809	43.1	11,581	43.5

Note:

"Others" represents revenue from our ancillary businesses including trading of cleanroom equipment of third party brands and provision of cleanroom preventive maintenance service.

Our gross profit margin was approximately 42.5%, 39.4%, 39.2% and 43.5% for FY2017, FY2018, FY2019 and 3M2020, respectively. The fluctuations in our overall gross profit margin was mainly attributable to the fluctuations in gross profit margin of our largest business segment, being the cleanroom wall and ceiling systems segment. Our gross profit margin of the cleanroom wall and ceiling systems segment decreased from approximately 43.3% for FY2017 to approximately 38.5% for FY2018, mainly attributable to the decrease in gross profit margin of the installation services, which decreased from approximately 34.5% for FY2017 to approximately 19.0% for FY2018. We reduced our profit margin for installation services in FY2018 because our Directors considered that our ability to secure sizeable contracts with installation services would enhance our reputation and job references in the PRC market and shall be beneficial to us in competing for other sizeable contracts with similar scale from other contract owners in the future. Excluding the contribution from installation services, we recorded a gross profit margin of approximately 44.2% and 43.7% for FY2017 and FY2018, respectively. Furthermore, we bought more semi-finished wall and ceiling panels for further processing to meet our production needs in the PRC in FY2018, resulting in a higher cost of goods sold as a percentage of sales and hence a lower gross profit margin. Our gross profit margin for cleanroom wall and ceilings for 3M2020 was adversely affected by the lockdown and transportation restriction measures imposed by various governments due to COVID-19, which resulted in suspension of our operations and our ongoing projects. However, we were able to achieve an overall relatively higher gross profit margin during 3M2020, as we recorded a high gross profit margin of approximately 89.2% from Singapore which is mainly attributable to an engineering service income of approximately RMB6.5 million from the data centre facility project in Singapore that involved minimal direct costs as further explained below. Please see the paragraph headed "Financial Information — Description and analysis of principal components in the consolidated statements of profit or loss — Gross Profit and Gross Profit Margin — Gross profit" for the details of the engineering service income.

Our gross profit margin of cleanroom equipment was approximately 37.6%, 45.2%, 34.1% and 11.8% for FY2017, FY2018, FY2019 and 3M2020, respectively. The higher gross profit margin for FY2018 was due to the higher gross profit margin of the 2018 Order in FY2018 as mentioned in the paragraph "Financial Information — Description and analysis of principal components in the consolidated statements of profit or loss — Revenue by business segment — Cleanroom equipment". Our gross profit margin for cleanroom equipment for 3M2020 substantially declined to 11.8%. As explained above, the suspension in our operations and on-going projects under COVID-19 has lowered our revenue and thus operational efficiency. For cleanroom equipment, the drop in gross profit margin is significant as we were unable to achieve economies of scale due to the low revenue recognised for cleanroom equipment in 3M2020.

SUMMARY

Our gross profit margin of ancillary business was approximately 36.4%, 43.8%, 37.8% and 32.8% for FY2017, FY2018, FY2019 and 3M2020, respectively. The higher gross profit margin for FY2018 was due to the higher price from the more complex orders we received from our largest customer for raised floor systems, which is a semiconductor product packaging and test services provider in the Philippines, from which revenue generated for FY2017 to FY2019 represented approximately 48.4% to 58.1% of our total raised floor systems revenue. The gross profit margin of approximately 37.8% for FY2019 was comparable to the margin of approximately 36.4% for FY2017 but we achieved a lower gross profit margin of approximately 32.8% for 3M2020 due to competition in the market.

RECENT DEVELOPMENTS

The recent outbreak of novel coronavirus (“**COVID-19**”) had disrupted our business operations which affected our financial condition and results of operations to some extent. For details, please see “Business — Recent Outbreak of COVID-19”.

As a result of the lockdown measures adopted by various governments in the countries where we operate in response to the outbreak of COVID-19, completion or progress of our projects were delayed and our financial results for the six months ended 30 June 2020 was adversely affected. Based on our unaudited management accounts for the six months ended 30 June 2020, as compared to that of the corresponding period in 2019, our revenue decreased by around 30% and our gross profit margin decreased by around 2 percentage points. During the six months ended 30 June 2020, we experienced suspension in our operations and on-going projects as a result of the lockdown measures and transportation restrictions as a result of COVID-19 which led to decrease in revenue as compared to the corresponding period in 2019. Furthermore, the decline in revenue also led to a lower operational efficiency and hence lower gross profit margin as some of the components of our costs of sales such as direct labour costs and manufacturing overhead are relatively fixed in nature. Turnover days of trade receivables and contract assets for the six months ended 30 June 2020 of 279.1 days is comparable to that of 281.1 days for 3M2020. The relatively high turnover days are mainly due to (i) delay in payment due to COVID-19; (ii) long outstanding trade receivable which remain outstanding due to specific reasons of the relevant projects; and (iii) low revenue recognised for 3M2020 and six months ended 30 June 2020. For detailed analysis of turnover days of trade receivables (including contract assets) for 3M2020, please refer to the paragraph headed “Trade receivables” in the “Financial Information” section of this prospectus. As at the Latest Practicable Date, we had not experienced any major settlement issue from our customers. As at 30 June 2020, our liquidity ratios, being current ratio and quick ratio, remained stable as compared to that of 31 March 2020.

As at the Latest Practicable Date, we had seven projects (with contract value over RMB5.0 million each) carried forward from 3M2020 with an aggregate contract value of these contracts amounted to approximately RMB134.8 million. As at the Latest Practicable Date, we also had six projects which commenced or to be commenced after 3M2020 with contract value over RMB5.0 million, with an aggregate contract value of approximately RMB60.2 million.

The outbreak of COVID-19 had impacted the progress of some of our ongoing projects and contracts both within and outside of the PRC by varying degrees, details of which are set out under “Business — Recent outbreak of COVID-19 — Our ongoing projects and business operations — (b) Our Projects”. As completion or progress of our projects were delayed, our Directors estimate that approximately RMB34 million of our revenue which should have been recognised in the first six months of 2020 was delayed but expected to be recognised as revenue in 2020 based on the latest project progress and communication with our customers.

As at the Latest Practicable Date, our operations in PRC, Malaysia and Philippines have resumed and we have been in the progress of completing our ongoing projects and contracts. Based on the latest information available to the Directors as at the Latest Practicable Date, the risk of us not being able to complete these projects is minimal.

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As at the Latest Practicable Date, we had contracts with an aggregate contract value of approximately RMB176.1 million, for which revenue had not been recognised during the Track Record Period. Among the total sum of approximately RMB176.1 million, approximately RMB31.4 million was recognised in the second quarter of 2020, approximately RMB126.6 million is expected to be recognised in the second half of 2020 and the remaining balance of approximately RMB18.1 million is expected to be recognised by December 2021. Among the sum of approximately RMB144.7 million to be recognised after 30 June 2020, approximately RMB99.5 million is the total contract value on hand for cleanroom projects and the remaining balance of approximately RMB45.2 million is the total contract value on hand for sales of goods.

Based on the aforementioned, in particular the resumption of our operations, the expected timeline of our ongoing projects and contracts on hand, and to the best knowledge and belief of the Directors and barring any uncontrollable circumstances such as further lockdown measures imposed by various governments in countries where we operate, we currently are catching up the lost progress of our projects and hope to achieve a revenue for the nine months ending 30 September 2020 which is at least comparable to the corresponding period in 2019.

Our financial results for the year ending 31 December 2020 are however expected to be adversely impacted by our non-recurring Listing expenses recognised and to be recognised as expenses in our consolidated statements of profit or loss and other comprehensive income. See “Financial information — Listing Expenses” for details. Furthermore, our financial results for the year ending 31 December 2020 may also be affected by the impact of COVID-19 and the expected decrease in gross profit margin for our cleanroom wall and ceiling systems segment which is mainly due to the reduction in operation efficiency during the recent outbreak of COVID-19 and the expected lower margin in securing major projects in competitive markets.

According to the F&S Report, with the background of US-China trade war, the cleanroom facility market is expected to keep growing in China, and the demand from some key downstream applications such as semiconductor industry will remain strong. The development of the semiconductor industry has been a national strategic industry in China and it is heavily invested in and supported by the PRC government in order to reduce the PRC’s reliance on imported semiconductor products. Therefore, the demand for the construction of semiconductor production facility is expected to remain strong.

In light of the recent tensions involving in the US-China trade war, the PRC and the U.S. imposed a number of new tariffs on each other’s goods, the PRC is planning to expand the production facilities of semiconductor domestically in order to reduce its reliance on imports on semiconductor to minimise its impact in the US-China trade war. The US-China Trade War has been accelerating the development of China’s semiconductor industry, as more attention has been paid to the supply chain security of semiconductor, especially chip industry, which drives the increase of domestic manufacturing proportion of semiconductor equipment in China. In addition, the Chinese Government has issued relevant policies on promoting the construction of comprehensive supply chain of the semiconductor industry, including the Certain Policies to Promote the High-quality Development of the Integrated Circuit and the Software Industry in the New Era (《新時期促進積體電路產業和軟體產業高品質發展的若干政策》) issued by the State Council in August 2020, which outlined tax incentives including 10 years of tax exemptions for qualified integrated circuit makers. The production volume of integrated circuits in China increased by 11.2% and 16.0% in 2018 and 2019, respectively.

As another result of the US-China Trade War, more global semiconductor companies choose to invest and build factories in Southeast Asia, which promotes the development of the semiconductor industry in the region. For instance, the production volume of integrated circuits in Malaysia increased by 9.6% and 30.5% in 2018 and 2019, respectively. Together with the expected expansion of semiconductor production in Southeast Asian regions outside the PRC, our Directors believe that the US-China trade war will further drive additional businesses to our Group in the cleanroom facility and semiconductor market in PRC and the Southeast Asia regions.

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Nevertheless, as our industry generally depends on the demand of semiconductor and pharmaceutical manufacturers and research institutes for cleanroom wall and ceiling systems and equipment as well as installation and maintenance services in the PRC, Southeast Asia and globally, it may be significantly affected by the policies of governments. In particular, the trade war between China and the U.S. may directly or indirectly affect the present and future economic conditions, and as a result adversely affect our business, results of operations and financial conditions. Please see “Risk Factor — Risks relating to our industry — Our business is dependent on the development of semiconductor and pharmaceutical industries. General economic conditions and other factors causing a material contraction in the sales and production of these industries could have a material adverse effect on our business, results of operations and financial condition.” for details.

Approximately 39.4%, 55.9%, 69.2% and 65.2% of our revenue in FY2017, FY2018, FY2019 and 3M2020 were generated from cleanroom projects, which we recognise revenue in our accounts based on the percentage of completion. As such, our revenue and our profit, may fluctuate period-over-period and are subject to changes in project schedule which are beyond our control. The timing of the signing of the contracts, commencement of our work and work progress (i.e. percentage of completion) is directly affected by the overall schedule and the progress of the entire facility which may experience delay as a result of the changes in design, the internal approval process of the customers or the facility owners, work progress of non-cleanroom parts of the facilities etc. As such, our operating results may fluctuate or even decrease and period-over-period comparisons of our operating results during the Track Record Period may not be indicative of our future performance.

Save as disclosed above and in the paragraph headed “Business — Recent Outbreak of COVID-19”, and the dividend declared and paid in July 2020 of RMB15.0 million, our Directors confirm that there had been (i) no material change to our business model, revenue and cost structure and financial conditions; and (ii) no material adverse change in our business operations and business environment in which we are operating, subsequent to the Track Record Period up to the date of this prospectus.

LISTING EXPENSES

The total Listing expenses in relation to the Global Offering (based on the mid-point of the Offer Price range), mainly comprising fees paid or payable to professional parties, underwriting fees and commission and the incentive fee that can be payable to the Joint Bookrunners (or any one of them) in the Company’s sole and absolute discretion, are expected to be approximately RMB61.9 million, which is approximately 52.9% of the gross proceeds from the Global Offering (based on the mid-point of the Offer Price range), of which (i) approximately RMB1.4 million was recognised in our consolidated statements of profit or loss for FY2018; (ii) approximately RMB11.4 million was recognised in our consolidated statements of profit or loss for FY2019; (iii) approximately RMB1.9 million was recognised in our consolidated statements of profit or loss for 3M2020; (iv) approximately RMB13.1 million is expected to be recognised as expenses in our consolidated statements of profit or loss for nine months ending 31 December 2020; and (v) approximately RMB34.1 million is expected to be capitalised as prepayments and charged against equity upon completion of the Global Offering under the relevant accounting standards.

OUR CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering, Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin will be interested in approximately 54.2% of the issued share capital of our Company in aggregate, and each of them will be a Controlling Shareholder. Each of them has executed the AIC Confirmation to confirm that they are a group of Controlling Shareholders acting in concert.

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CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, we had been engaged as a supplier to Sum Technic, one of our top 5 customers for the FY2018, for the provision of ceiling and wall systems for their projects, where they acted as the main contractor. See “Business — Our Customers — Top five customers” for details. Mr. Ng, one of our Controlling Shareholders, owned 45.3% of Sum System and 51.0% of Sum Technic. Accordingly, each member of Sum Group is an associate of Mr. Ng and a connected person of our Company under the Listing Rules. We have entered into certain transactions with each of Sum Group and Sum Technic that will be continuing connected transactions of our Company under the Listing Rules following completion of the Listing. See “Continuing connected transactions” for details.

STATISTICS OF THE GLOBAL OFFERING

	Based on an Offer Price of HK\$0.36	Based on an Offer Price of HK\$0.40
Market capitalisation of the Shares ⁽¹⁾ Unaudited pro forma adjusted	HK\$504.0 million	HK\$560.0 million
consolidated net tangible assets per Share ⁽²⁾	HK\$0.17	HK\$0.17

Notes:

- (1) The calculation of market capitalisation is based on each indicative Offer Price and 1,400,000,000 Shares in issue immediately after completion of the Global Offering but takes no account of any Shares which may fall to be issued upon the exercise of any Share Options or any Shares which may be allotted, issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in “Statutory and General Information — A. Further information about our Group — 3. Resolutions in writing of our Shareholders passed on 3 September 2020” in Appendix V.
- (2) The unaudited pro forma adjusted consolidated net tangible assets value per Share has been arrived at after the adjustments referred to in the “Financial Information — Unaudited pro forma adjusted net tangible assets” section and on the basis of 1,400,000,000 Shares in issue immediately after completion of the Global Offering but takes no account of any Shares which may fall to be issued under the Share Options or any Shares which may be allotted, issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in “Statutory and General information — A. Further information about our Group — 3. Resolutions in writing of our Shareholders passed on 3 September 2020” in Appendix V.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share presented above does not take into account of the proposed dividend of RMB15,000,000 on 9 July 2020. Had the effect of such dividend been taken into account and with all other bases and assumptions for the calculation remaining the same, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share under the high end and low end of the indicative Offer Price (HK\$0.40 and HK\$0.36 respectively) would have decreased to HK\$0.16 per Share and HK\$0.16 per Share, respectively. For details of our dividend payment history and the unaudited pro forma adjusted consolidated net tangible assets per Share, please refer to “Financial Information — Dividends” and the paragraph headed “Unaudited pro forma statement of adjusted consolidated net tangible assets” in Appendix II to this prospectus, respectively.

DIVIDEND POLICY

During FY2017, FY2018, FY2019, 3M2020 and July 2020, our subsidiaries declared and distributed dividends of nil, approximately RMB8.1 million, RMB25.4 million, nil and RMB15.0 million, respectively. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.

We currently plan to pay a total dividend in respect of each year of approximately 30% to 40% of our consolidated profit attributable to Shareholders for 2020 and the years thereafter. For details of our dividend policy, see “Financial Information — Dividends”.

RISK FACTORS

Our business is subject to a number of risks and there are risks relating to investment in the Offer Shares. We believe that the following are some of the major risks that may have a material

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adverse effect on us: (i) We have not entered into long term agreements with our customers and our revenue relies on our continual success in contract tenders or quotations and is non-recurring in nature. If we fail to secure new contracts and orders on favorable terms or at all, our business and results of operation could be materially and adversely affected; (ii) We rely on a few major customers and any significant decrease in the number of contracts with these customers may materially and adversely affect our financial performance and results of operations; (iii) Our business, results of operations and financial position could be adversely affected by the outbreak of COVID-19; (iv) Our operating results may fluctuate significantly between different periods within a financial year or on a period-on-period basis, due to various factors, some of which are beyond our control. Our historical financial and operating results therefore may not be indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability; (v) We had net cash used in operating activities for FY2017 and FY2019. Failure to manage our liquidity and cash flows may materially and adversely affect our business, results of operations and financial condition; (vi) Defective or unsatisfactory products or products which fail to comply with safety and quality standards may lead to loss of customers and sales and may subject us to product liability claim, which could result in significant costs or negatively affect our reputation; (vii) Unsatisfactory performance or unavailability of subcontractors may adversely affect our operation and profitability; (viii) We determine our quotation or tender price based on the estimated time and costs involved in a contract which may deviate from the actual time and costs involved and any material inaccurate estimation may adversely affect our financial results; and (ix) Our business is project-based in nature and we may be unable to make accurate production planning. You should read the entire “Risk Factors” section in the prospectus carefully.

RECENT OUTBREAK OF COVID-19

Beginning early 2020, the PRC and certain countries around the world encountered an outbreak of the novel coronavirus named COVID-19 by the World Health Organisation (the “WHO”), a highly contagious disease. On 11 March 2020, WHO characterised COVID-19 as pandemic.

The recent global outbreak of COVID-19 has adversely impacted our business operations. Our principal business operations are located in the PRC, Malaysia and the Philippines, where local outbreaks of COVID-19 and surge in the number of confirmed cases of infection have been recorded since January 2020. These governments responded with varying degrees of lockdown measures and travel restrictions, which have affected our business operations.

For details of the government responses and policies in the PRC, Malaysia and the Philippines in response to the outbreak of COVID-19, please refer to the section headed “Business — Recent outbreak of COVID-19”.

(a) Our operations

In the PRC, we temporarily suspended our business operations from 31 January 2020 to 11 February 2020, and we have resumed our business operation since 12 February 2020.

In Malaysia, varying degree of restriction of movement and closure of business since 18 March 2020, we temporarily suspended our Malaysian operations from 18 March 2020. Subsequently, we gradually resumed our business operations in compliance with the requirements of the Malaysian authorities. Since 4 May 2020, all of our Malaysian operations have resumed business operations at full capacity.

In the Philippines, we have fully resumed operations for our office work, subject to work-home-arrangement for certain employees, in compliance with existing regulations in areas under GCQ, and have resumed operations at close to full capacity for our on-site work which involves the repair, maintenance and installation of cleanroom equipment for our customers in ongoing projects in areas under GCQ, subject to compliance with regulations and issued safety guidelines.

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(b) Our projects

The outbreak of COVID-19 and the above restrictions have impacted the progress of our ongoing projects and contracts both within and outside of the PRC by varying degrees, details of which are set out under “Business — Recent outbreak of COVID-19 — Our ongoing projects and business operations — (b) Our Projects”. Seven of our ongoing wall and ceiling projects in the PRC (with contract value over RMB5.0 million) experienced delays in the range of five weeks to 6.5 months, while two of our ongoing wall and ceiling projects in Southeast Asia (with contract value over RMB5.0 million) experienced delay in the range of five weeks to two months. For our equipment contracts in Southeast Asia, two of such contracts experienced delay of three months. Our Directors expect that save for the delays as disclosed, the risk of material delays to the completion of such projects and contracts are low. Please refer to “Business — Recent outbreak of COVID-19 — Our ongoing projects and business operations — (b) Our projects” for details.

(c) Our business relationships with our customers

As at the Latest Practicable Date and to the best of our Directors’ knowledge, (i) our major customers in the PRC, Malaysia and Singapore have fully resumed their business operations; and (ii) seven of our 10 major customers/end-users in the Philippines are permitted to resume full operations under the GCQ currently imposed by the Philippine Government, subject to regulations and guidelines under GCQ. Further, most of our major suppliers and subcontractors in the PRC and Malaysia have resumed full operations in compliance with the applicable local regulations. We have discussed with our customers the delays on our projects and contracts and, taking into account the outbreak of COVID-19 and based on the assumption there would be no other unforeseeable intervening events which would further interrupt completion, we have reached agreement with our customers on the completion schedules. To the best of our Directors’ knowledge, none of our customers have indicated they would penalize us for any such delay.

(d) Our sales and marketing activities

Several of our tendered contracts experienced delay due to the outbreak of COVID-19, which were mainly caused by the lockdown measures which have disrupted the business operations of our customers and the overall progress of the facility construction, to which our cleanroom system forms part of. However, as at the Latest Practicable Date, to the best knowledge of our Directors, we are not aware of any potential projects which we have submitted tender or quotation for is being aborted as a result of the outbreak of COVID-19. Yet, our sales and marketing activities have been affected as we were unable to conduct face-to-face client meetings due to travel restrictions.

(e) Our supply chain

Our major suppliers and subcontractors are located in the PRC and Malaysia. We have communicated with them regarding the outbreak of COVID-19 and its impact on their business operations. To the best of our Directors’ knowledge, our major suppliers and subcontractors have resumed full operations. However, due to the lockdown measures, the delivery lead time may be lengthened and the delivery schedule may be delayed. We have communicated with our customers and to our Directors’ best knowledge, as at the Latest Practicable Date, none of our customers affected by the delayed installation have indicated to us that they will penalize us for such delay.

For a more detailed discussion on the overall impact of the outbreak of COVID-19 on our business operations, please refer to “Business — Recent outbreak of COVID-19 — Our ongoing projects and business operations — (3) Overall”.

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(f) Financial impacts

In view of the contract and project delays as elaborated under the paragraph headed “Business — Recent Outbreak of COVID-19 — Our ongoing projects and business operations — (b) Our projects”, we expect to incur additional expenses for manpower and man-hour to offset the impact of the delay. In addition, according to our hygiene and preventive measures, employees who travel to other provinces in the PRC or countries and areas with high alert of COVID-19 cases would be subject to compulsory self-quarantine for 14 days, during which they may not be able to fully discharge their business duties but would continue to be remunerated by us. We expect to incur an additional costs of approximately RMB0.5 million as extra labour costs. Furthermore, due to the heightened hygiene and preventive measures undertaken by our Group as elaborated below, our Group has incurred an additional costs of approximately RMB0.2 million. As a result, we expect to incur in aggregate an additional costs of approximately RMB0.7 million as a result of the outbreak of COVID-19.

As a result of the lockdown measures adopted by various governments in the countries where we operate, completion or progress of our projects were delayed and our financial results for the six months ended 30 June 2020 were adversely affected. Based on our unaudited management accounts for the six months ended 30 June 2020, as compared to that of the corresponding period in 2019, our revenue decreased by around 30% and our gross profit margin decreased by around 2 percentage points. During the six months ended 30 June 2020, we experienced suspension in our operations and on-going projects as a result of the lockdown measures and transportation restrictions as a result of COVID-19 which led to decrease in revenue as compared to the corresponding period in 2019. Furthermore, the decline in revenue also led to a lower operational efficiency and hence lower gross profit margin as some of the components of our costs of sales such as direct labour costs and manufacturing overhead are relatively fixed in nature. Turnover days of trade receivables and contract assets for the six months ended 30 June 2020 of 279.1 days is comparable to that of 281.1 days for 3M2020. The relatively high turnover days are mainly due to (i) delay in payment due to COVID-19; (ii) long outstanding trade receivables which remain outstanding due to specific reasons of the relevant projects; and (iii) low revenue recognised for 3M2020 and six months ended 30 June 2020. As at the Latest Practicable Date, we have not experienced any major settlement issue from our customers. As at 30 June 2020, our liquidity ratios, being current ratio and quick ratio, remained stable as compared to that of 31 March 2020.

As completion or progress of our projects were delayed, our Directors estimate that approximately RMB34 million of our revenue which should have been recognised in the first six months of 2020 would be delayed but expected to be recognised as revenue in 2020 based on the latest project progress and communication with our customers.

Nonetheless, taking into account that (i) our Directors are of the view that the Group is in progress of completing the ongoing projects subject to certain delays due to the outbreak of COVID-19, and the current project schedules as disclosed under “Business — Recent Outbreak of COVID-19 — Our ongoing projects and business operations — (b) Our projects” have been discussed and agreed between our Group and our customers; (ii) none of our ongoing projects have been terminated; (iii) none of the contracts we have submitted tenders for had been aborted; (iv) our business operations resumed to normal after the various lockdown measures in the PRC and Malaysia were relaxed, and we anticipate our business operations in the Philippines will also resume to normal after the restrictions imposed by the government are lifted; and (v) the economic activities in various countries have gradually regained momentum as the outbreak of COVID-19 is more contained, and further based on the assumptions that there will be no further unforeseen interruption to the business operations of our Group, our customers and our supply chain, such as indefinite period of business suspension, travel and shipping restrictions due to further outbreak of COVID-19 in the locations of our business operations and that of our customers and supply chain, our Directors believe that there is no major impact on the demand from our downstream industries for our cleanroom products, and the impact of the COVID-19 is temporary and our business operations will resume to normal after the outbreak of

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COVID-19 has become more contained and its impact on the global economy has reduced. As at the Latest Practicable Date, we had contracts with an aggregate outstanding contract value, for which revenue had not been recognised during the Track Record Period and is expected to be recognised by December 2020, of (i) approximately RMB97.0 million for the PRC which represents approximately 126.7% of our revenue in the PRC for the nine months from 1 April 2019 to 31 December 2019; and (ii) approximately RMB61.0 million for markets outside PRC which represents approximately 75.0% of our revenue from outside PRC for the nine months from 1 April 2019 to 31 December 2019.

(g) Our hygiene and preventive measure

We have established a business continuity team for monitoring and implementing the hygiene and preventive measures to limit the spread of COVID-19. Our resumed business operations in the PRC and Malaysia have implemented hygiene and preventive measures as required by the applicable authorities, details of which are set out under “Business — Recent outbreak of COVID-19 — (h) Our hygiene and preventive measure”.

(h) Our contingency plan

In the unlikely event that we are forced to completely suspend our business operations due to the outbreak of COVID-19 whether due to government policy or any other reasons beyond our control, and assuming that there is no Listing, we estimate our financial resources as at 30 June 2020 based on unaudited management account and after deducting the listing expenses before the Listing but not those upon Listing, would have been reduced to approximately RMB27.8 million, which could be sufficient to support our Company for around four months. By then, our remaining cash will be less than and not sufficient to pay our trade payables as of 30 June 2020 of approximately RMB20.6 million (assuming that we are required to pay in full our trade payables on or about 142 days from 30 June 2020, representing the trade payables turnover days for the six months ended 30 June 2020). In another scenario, assuming that the Listing takes place and we are able to increase our working capital by (i) the working capital portion (being approximately 6.9%) of the net proceeds from the Global Offering assuming an Offer Price of HK\$0.36 (being the low-end of the indicative Offer Price range); and (ii) the portion of listing expenses already paid with the internal resources of our Company, but which will be paid using gross proceeds from the Global Offering instead, our available financial resources will be increased to approximately RMB56.5 million, which will be sufficient to pay our trade payables as of 30 June 2020 of approximately RMB20.6 million in full and continue to pay our necessary monthly expenses until we receive cash settlement from the trade receivables and contract assets as of 30 June 2020 of approximately RMB76.3 million on or about 279 days from 30 June 2020 (assuming that the trade receivables and contract assets would be received in full based on their turnover days for the six months ended 30 June 2020 of approximately 279 days). In the latter scenario, we will have adequate financial resources to support our company for around 60 months. In both scenarios above, we have assumed: (i) we will not generate any income due to the suspension of business; (ii) monthly fixed costs such as interests expenses, staff costs and rental expenses will continue to be paid each month; (iii) delay of our expansion plan under such condition; (iv) there will be no further internal or external financing from Shareholders or financial institutions; (v) other than the dividend paid in July 2020 of RMB15.0 million, no further dividend will be declared and paid under such situation; and (vi) repayment of bank borrowings will be made for the principal and related interests according to the repayment schedule.

The abovementioned extreme situation may or may not occur and the abovementioned analysis is for illustrative purpose only. Our Directors currently assess that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development, therefore it is a possibility that such impact to our Group may be out of our Director’s control and beyond our estimation and assessment.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings:

“3M2019”	the three months ended 31 March 2019
“3M2020”	the three months ended 31 March 2020
“Additional Warehouse”	our additional warehouse located at No. 2 Jalan Ringgit 23/11, Section 23, 40300 Shah Alam, Selangor, Malaysia
“AIC Confirmation”	the acting in concert confirmation dated 13 August 2019 and executed by Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin
“Adjusted Net Profit”	our net profit for the year/period after excluding the effect of the listing expenses as detailed in “Financial Information — Summary of results of operations — Non-HKFRS measures”
“Adjusted Net Profit Margin”	our net profit margin for the year/period after excluding the effect of the listing expenses as detailed in “Financial Information — Summary of results of operations — Non-HKFRS measures”
“affiliate(s)”	any other persons, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on 3 September 2020 and effective on the Listing Date, as amended or supplemented from time to time
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands

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“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in “History and Development — Reorganisation — Corporate and shareholding structure immediately following the completion of the Global Offering and Capitalisation Issue”
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Channel CR Material”	Channel CR Material (Shanghai) Co. Ltd.,* (捷能新型建材(上海)有限公司) a company established in the PRC on 20 June 2017 and owned as to 93.5% by Channel Systems (Shanghai) after the Reorganisation, and an indirectly non-wholly owned subsidiary of our Company
“Channel Micron (BVI)”	Channel Micron International Limited, a company incorporated in the BVI on 12 June 2019 and a directly wholly owned subsidiary of our Company
“Channel Systems (Asia)”	Channel Systems Asia Sdn. Bhd., a company incorporated in Malaysia on 25 March 1999 and an indirectly wholly owned subsidiary of our Company
“Channel Systems (HK)”	Channel Systems International Limited (捷能系統國際有限公司), a company incorporated in Hong Kong on 21 June 2019 and an indirectly wholly-owned subsidiary of our Company

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“Channel Systems Inc.”	Channel Systems Inc., a company incorporated in the state of California, U.S. on 18 July 1989 and is owned as to 45% by Mr. Douglas Frederick Bockmiller and 55% by Ms. Lauren Lindquist Bockmiller, and is a Shareholder
“Channel Systems (Shanghai)”	Channel Systems (Shanghai) Co. Ltd.,* (捷能系統建材(上海)有限公司) a company established in the PRC on 18 February 2004 and an indirectly wholly owned subsidiary of our Company
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company” or “our Company”	Channel Micron Holdings Company Limited (捷心隆控股有限公司), a company incorporated in the Cayman Islands with limited liability on 11 June 2019, the holding company of our Group upon completion of the Reorganisation and the proposed vehicle of the Listing
“Controlling Shareholder(s)”	shall have the meaning given to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Chang Chin Sia, Ng Boon Hock, Ms. Yap, Mr. Chin, Loh Wei Loon and Phang Chee Kin, who are regarded as a group of Controlling Shareholders acting in concert by virtue of the AIC Confirmation
“CSA Technic”	CSA Technic Sdn. Bhd., a company incorporated in Malaysia on 24 August 2015 and an indirectly wholly owned subsidiary of our Company
“Deed of Indemnity”	a deed of indemnity dated 3 September 2020 entered into between our Controlling Shareholders and our Company to provide certain indemnities, particulars of which are set out in “Appendix V — Statutory and General Information — E. Other Information — 2. Tax and other indemnities”
“Deed of Non-competition”	a deed of non-competition dated 3 September 2020 entered into between our Controlling Shareholders and our Company, particulars of which are set out in the section “Relationship with Controlling Shareholders — Corporate governance measures for resolving actual and/or potential conflicts of interests”
“Director”	the director(s) of our Company

DEFINITIONS

“electronic application instruction(s)”	instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for our Hong Kong Offer Shares
“EIT Law”	Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法), as amended or supplemented from time to time
“Extreme Conditions”	the events of, for example, serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons where an announcement may be made by the Hong Kong government according to the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Labour Department in June 2019. When such announcement is in force, the government will review the situation and further advise the public by the end of the two-hour period whether the announcement will be extended or cancelled
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
“F&S Report”	the independent report commissioned by us and prepared by Frost and Sullivan containing a market study of cleanroom facility market in Southeast Asia and China
“FY or “financial year”	financial year of our Company ended or ending 31 December
“FY2017”	financial year ended 31 December 2017
“FY2018”	financial year ended 31 December 2018
“FY2019”	financial year ended 31 December 2019
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “we”, “our” or “us”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

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“ HK eIPO White Form ”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name, submitted online through the IPO App or the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company as specified in the IPO App or on the designated website at www.hkeipo.hk
“ HK\$ ” or “Hong Kong dollar”	Hong Kong dollar, the lawful currency of Hong Kong
“ HKSCC ”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“ HKSCC Nominees ”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“ HKFRS ”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Offer Shares”	35,000,000 new Shares being initially offered by us for subscription pursuant to the Hong Kong Public Offering at the Offer Price, subject to any adjustment or re-allocation as described in the section “Structure of the Global Offering”
“Hong Kong Public Offering”	the offer by us of the Hong Kong Offer Shares to the public in Hong Kong for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in the section “Structure of the Global Offering”
“Hong Kong Underwriters”	the underwriters listed in the section “Underwriting — Hong Kong Underwriters”, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 21 September 2020 relating to the Hong Kong Public Offering entered into by, among others, our Company and the Hong Kong Underwriters, as further described in the section “Underwriting”

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“Independent Third Party(ies)”	a person who, as far as our Directors are aware after having made all reasonable enquiries, is not a connected person of our Company within the meaning ascribed under the Listing Rules. “independent” and “third party” shall be construed accordingly
“International Offer Shares”	315,000,000 new Shares being initially offered by us for subscription pursuant to the International Offering
“International Offering”	the conditional offering of the International Offer Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in the section “Structure of the Global Offering”
“International Underwriters”	the underwriters for the International Offering who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into by, among others, our Company and the International Underwriters on or about the Price Determination Date, as further described in the section “Underwriting”
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” in this prospectus
“Latest Practicable Date”	12 September 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date expected to be on or around Thursday, 8 October 2020, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“LMW License”	the license granted pursuant to Section 65 and 65A of the Customs Act 1967 of Malaysia
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange
“Malaysia Factory”	our production facility located at Lot P.T. 14274, Jalan SU 8, Persiaran Tengku Ampuan, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia
“m” or “m.”	metre(s)
“Malaysia Legal Advisers”	Gan Partnership, our legal advisers as to Malaysian law
“Max Micron”	Max Micron Precision Sdn. Bhd. (formally known as Milleon Micron Precision Sdn. Bhd.), a company incorporated in Malaysia on 13 July 2012 and an indirectly wholly owned subsidiary of our Company
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company conditionally adopted and effective on 3 September 2020, as amended or supplemented from time to time
“Micron Cleanroom”	Micron Cleanroom (Philippines), Inc., a company incorporated in the Republic of Philippines on 12 February 2009 and an indirectly non-wholly owned subsidiary of our Company
“Micron (M)”	Micron (M) Sdn. Bhd, a company incorporated in Malaysia on 19 June 1989 and an indirectly wholly owned subsidiary of our Company

DEFINITIONS

“Micron Technology”	Micron Technology (M) Sdn. Bhd., a company incorporated in Malaysia on 25 September 1995 and an indirectly wholly owned subsidiary of our Company
“Mr. Chia”	Mr. Francis Chia Mong Tet, one of our Controlling Shareholders
“Mr. Chin”	Mr. Chin Sze Kee, an executive Director and one of our Controlling Shareholders
“Mr. Law”	Mr. Law Eng Hock, an executive Director and one of our Controlling Shareholders
“Mr. Lim”	Mr. Lim Kai Seng, an executive Director and one of our Controlling Shareholders
“Mr. Ng”	Mr. Ng Yew Sum, an executive Director and one of our Controlling Shareholders
“Ms. Yap”	Ms. Yap Chui Fan, an executive Director and one of our Controlling Shareholders
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.40 and expected to be not less than HK\$0.36, such price to be determined by agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Pacific Panels Inc.”	Pacific Panels Inc., a company incorporated in the State of California on 30 June 1994 and owned as to 50% by Mr. Douglas Frederick Bockmiller and 50% by Mr. Peter Wayne Borris, and is a Shareholder
“Peso”	Philippines peso, the lawful currency of the Philippines
“Philippines”	the Republic of the Philippines
“Philippines Legal Advisers”	V&A LAW Villaraza & Angangco, our legal advisers as to Philippines laws

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Factory”	our production facility located at Building 24, Chuansha International Precision Park, No. 6999 Chuansha Road, Pudong New Area, Shanghai, the PRC* (上海市浦東新區川沙路6999號川沙國際精工園第24幢廠房)
“PRC Legal Advisers”	Jingtian & Gongcheng, our legal advisers as to PRC law
“Pre-subdivision Share(s)”	ordinary share(s) with a nominal value of HK\$0.1 each in the share capital of our Company before the Share Subdivision
“Price Determination Agreement”	the agreement expected to be entered into by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date to determine the final Offer Price
“Price Determination Date”	the date expected to be on or around Monday, 28 September 2020, but no later than 12:00 noon on Monday, 5 October 2020, on which our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) determine the final Offer Price for the purpose of the Global Offering
“Principal Share Registrar”	Conyers Trust Company (Cayman) Limited, our principal share registrar in the Cayman Islands
“R&D”	research and development
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group in preparation for the Listing, details of which are set out in the section “History and Development — The Reorganisation”
“RM”	Malaysian Ringgit, the lawful currency of Malaysia
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC* (中華人民共和國國家外匯管理局)
“SAT”	State Administration of Taxation of the PRC* (中華人民共和國國家稅務總局)

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company after the Share Subdivision
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 3 September 2020 particulars of which are set out in “D. Share Option Scheme” in Appendix V to this prospectus
“Share Options”	options granted under the Share Option Scheme
“Share Subdivision”	the subdivision of every issued and unissued share of HK\$0.1 par value into 10 shares of HK\$0.01 par value each, which was approved by our Shareholders by ordinary resolution passed on 24 October 2019
“Shareholder(s)”	holder(s) of Shares
“Singapore Legal Advisers”	CNPLaw LLP, our legal advisers as to Singapore laws
“SGD”	Singaporean dollar, the lawful currency of Singapore
“Sole Sponsor”	Ballas Capital Limited, a corporation licensed to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the Listing
“Southeast Asia”	a sub region of Asia, consisting of the countries that are geographically south of China, east of India, west of New Guinea and North of Australia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sum Group”	Sum System and Sum Technic
“Sum System”	Sum System Solution Sdn. Bhd., a company incorporated in Malaysia on 23 May 2013 which is owned as to approximately 45.3% by Mr. Ng, who is a Controlling Shareholder and an executive Director, and therefore is a connected person of our Company

DEFINITIONS

“Sum Technic”	Sum Technic Sdn. Bhd., a company incorporated in Malaysia on 11 April 2014 which is owned as to approximately 51.0% by Mr. Ng, who is a Controlling Shareholder and an executive Director, and therefore is a connected person of our Company
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended or supplemented from time to time
“Track Record Period”	FY2017, FY2018, FY2019 and 3M2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters, or any one of them
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement, or any one of them
“U.S.” or “United States”	the United States of America, its territories and possessions, any state of the United States and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act 1933, as amended or supplemented from time to time
“US\$”, “U.S. Dollar” or “USD”	United States dollar, the lawful currency of the United States
“United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“ WHITE Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicants’ own name
“ YELLOW Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, all times refer to Hong Kong local time and dates and references to years in this prospectus are to calendar years.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “controlling shareholder”, “core connected person”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules.

Unless otherwise specified, all references to any shareholdings in our Company do not take into account any Shares which may be allotted and issued upon the exercise of any options granted or which may be granted under the Share Option Scheme.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with “” and are provided for identification purposes only.*

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

“BSL”	Biosafety Level, which is a set of precautions required to isolate biological agents in an enclosed laboratory facility. The levels of containment range from the highest biosafety level 4 (BSL-4) to the lowest biosafety level 1 (BSL-1)
“CAGR”	compound annual growth rate
“CGMP”	the Current Good Manufacturing Practice regulations enforced by the FDA, which adopts stricter standards than the GMP
“cleanroom”	a contained environment equipped with systems and equipment to reduce particulate contamination which may adversely affect the operation process, and to control other environmental parameters such as temperature, humidity and pressure
“cleanroom projects(s)”	contract(s) for which we supply our cleanroom products with installation services or contracts which we will charge our customers based on the percentage completed of engineering work on our supplied products
“CNC”	computer numerical control
“contract(s)”	our contract(s) of sales of goods with or without installation service
“FED-STD-209E”	a United States federal cleanroom standard that was officially cancelled but is still widely used in the cleanroom industry. The standard classifies cleanroom into six classes based on maximum concentration of particles for several specified particle sizes. Under FED-STD-209E, cleanrooms are classified from Class 1 (with the lowest maximum airborne particle count allowed per sq.ft.) to Class 100,000 (with the highest maximum airborne particle count allowed per sq.ft.)
“FM”	Factory Mutual, a U.S. certification for, among others, building materials including cleanroom materials

GLOSSARY OF TECHNICAL TERMS

“FFU”	fan filter unit, a type of air filtering equipment for supplying filtered air to cleanrooms by removing airborne particles from recirculating air
“GFA”	gross floor area
“GMP”	Good Manufacturing Practice, which provides standards that assure proper design, monitoring, and control of manufacturing processes and facilities. Grade A to Grade D are equivalent to ISO5 to ISO8 on ISO 14644-1
“HEPA”	high-efficiency particulate air
“ISO”	International Organization for Standardization
“ISO 14644-1 standard”	a non-governmental standard developed by the International Organization for Standardization (ISO). The air cleanliness levels of cleanrooms are based on the number of specific diameter particles per cubic meter of air. The standard classifies cleanroom into nine classes from ISO 1 (with the lowest maximum airborne particle count allowed per sq.m.) to ISO 9 (with the highest maximum airborne particle count allowed per sq.m.)
“LCD”	liquid crystal display
“LED”	light emitting diode
“outgassing”	means release of gas that was dissolved, trapped or absorbed in construction material to the cleanroom environment
“PU”	polyurethane
“PVC”	polyvinyl chloride
“sq.ft.”	square foot/feet
“sq.m.”	square metre
“TUV-PSB”	Technischer Überwachungsverein – PSB, a German/Singapore product testing, inspection and certification services provider
“VOC”	volatile organic compounds

Certain abbreviations used and defined in the English prospectus are not used in the Chinese version. In the Chinese prospectus, the full expression for these abbreviations is included in both the defined terms and their definitions.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this prospectus. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “might”, “plan”, “project”, “propose”, “seek”, “should”, “target”, “will”, “would” and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our ability to identify and successfully take advantage of new business development opportunities; and
- our dividend policy.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information, implied or expressed, in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in “Risk Factors” and the following:

- changes in the laws, rules and regulations applicable to us or relating to any aspects of our business or operations;
- general economic, market and business conditions in the PRC and Southeast Asia, including the sustainability of the economic growth in the PRC and Southeast Asia;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;

FORWARD-LOOKING STATEMENTS

- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risk factors and uncertainties set out in the section “Risk Factors”.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares.

The occurrence of any of the following events, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, could materially and adversely affect our business, financial condition, results of operations or prospects. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISK RELATING TO OUR BUSINESS

We have not entered into long term agreements with our customers and our revenue relies on our continual success in contract tenders or quotations, which are non-recurring in nature. If we fail to secure new contracts and orders on favourable terms or at all, our business and results of operation could be materially and adversely affected.

During the Track Record Period, our revenue is derived from contracts awarded through competitive tendering or quotation process. For FY2017, FY2018, FY2019 and 3M2020, our revenue generated from cleanroom projects accounted for 39.4%, 55.9%, 69.2% and 65.2% of our total revenue, and our success rate in respect of acceptance of our tenders were approximately 72.7%, 72.0%, 69.2% and 87.5%, respectively. We generally do not enter into long-term contracts with our customers and our customers are therefore under no obligation to award contracts to us. As such, our revenue is mainly derived from contracts and purchases which are non-recurrent in nature. There is no guarantee that our existing customers or potential customers will invite us to participate in their tendering processes, or obtain quotations from us, or we will be able to secure new contracts and purchases from customers after completion of the existing awarded contracts and orders.

We cannot assure you that we will not lose existing customers or we will be able to maintain the same or higher level of success rate, or if we will be able to secure new tenders and/or orders on favourable terms or at all in the future. In the event that any main contractors receive any poor performance review or experience any major industrial accident, such customer may be suspended from tendering for new contracts and in turn cease to offer tender opportunities and/or new purchases to us. Therefore, the number and scale of contracts and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business. If there is a significant decrease in the number of tenders and/or new purchases awarded to us, or if there is a loss of a major customer, our business, financial conditions and results of operations may be materially and adversely affected.

RISK FACTORS

We rely on a few major customers and any significant decrease in the number of contracts sourced from these customers may materially and adversely affect our financial performance and results of operations.

A significant portion of our revenue was derived from a limited number of customers during the Track Record Period. Our five largest customers for FY2017, FY2018, FY2019 and 3M2020 accounted for approximately 61.8%, 71.3%, 65.3% and 78.2% of our total revenue, respectively. For further details on our relationship with our top five customers, see the section “Business — Our Customers — Top five customers”.

Since we do not enter into long-term contracts with our customers and do not have long-term purchase commitment from them and that we are not their exclusive supplier, there is no assurance that our five largest customers will continue to purchase our products at current levels or at all in the future. If the prices of our products are not as competitive as those set by our competitors for comparable products or if the quality of our products does not meet our customers’ expectations or requirements, our customers may reduce their purchase volume or may not make purchases from us. There is no assurance that our major customers will not negotiate for a reduction in the price of our products in the future. In order to maintain business relationships with them, we may have to offer a more competitive price to them. If we are unable to reduce our production cost accordingly and maintain our profit margins, our profitability, results of operations and financial condition may be materially and adversely affected.

In addition, there is no assurance that our business relationship with these customers will continue in the future. If any of these customers ceases to do business with us, or substantially reduces the volume of its business transactions with us, or delays or cancels any purchase orders for our products, or fails to or otherwise delays in payment for our products for whatever reason, and if we are unable to secure new, substitute customers with comparable sale volume and profit margin, our profitability and financial position may be adversely affected.

Our business, results of operations and financial position could be adversely affected by the outbreak of COVID-19.

The recent widespread outbreak of COVID-19 has endangered the health of many people residing in the PRC, Malaysia, the Philippines and various countries globally and has significantly disrupted travel and local economies. On 11 March 2020, WHO characterised COVID-19 as a pandemic. As at the Latest Practicable Date, over 26 million confirmed cases of COVID-19 infection had been recorded worldwide.

The outbreak of COVID-19 may affect our customers and our ongoing projects and contracts with these customers may be suspended, delayed or even cancelled. In the event that the lockdown measures and travel restrictions imposed by government authorities as a result of the outbreak of COVID-19 have posed difficulty for the fulfilment of obligations under contracts, our customers may seek to terminate them, which could adversely impact our business, results of operations and financial conditions.

In addition, in response to the requirements of the local government authorities, we temporarily suspended our business operations at our PRC office in February 2020, and our Malaysia and the Philippines offices from mid-March 2020. As at Latest Practicable Date, our

RISK FACTORS

PRC and Malaysian operations have resumed. Starting 1 June 2020, pursuant to the GCQ imposed by the Philippine Government and the Omnibus Guidelines with Amendments as of 3 June 2020, office services are permitted to resume anywhere between 50% up to full operational capacity in areas under GCQ, without prejudice to work-from-home and other alternative work arrangements. Industries engaged in the “repair and maintenance” are allowed to operate anywhere between 50% to full capacity in areas under GCQ. All public and private construction projects are allowed under GCQ, but with strict compliance to the issued safety guidelines.

We have fully resumed operations for our office work, and resumed operations at close to full capacity for our on-site work which involves the repair, maintenance and installation of cleanroom equipment for our customers in ongoing projects in areas under GCQ, subject to compliance with regulations and issued safety guidelines. However, we may be subject to further suspension of our business operations should the outbreak of COVID-19 continue to spur and the governments impose even more stringent measures to curb the spread of the virus.

Our operations may be disrupted if any of our employees are suspected of being infected by COVID-19, since this could require us to quarantine some or all of our employees or disinfect our office premises and/or production facilities. This may affect our ability to fulfil the orders of our customers. Furthermore, if any of our suppliers and subcontractors are affected by COVID-19, and the supply of raw materials is disrupted, we may not have sufficient materials to support our orders and which may affect our Group’s ability to meet the demands of our customers. Please refer to the paragraphs headed “Business — Recent Outbreak of COVID-19” for a detailed discussion of the impact of the COVID-19 outbreak on our business operations. In addition to the foregoing, it remains uncertain as to when, or whether, the outbreak will be contained. If the outbreak of COVID-19 is not effectively controlled, the negative impact on our business, results of operations and financial position may be even more material.

Our operating results may fluctuate significantly between different periods within a financial year or on a period-on-period basis, due to various factors, some of which are beyond our control. Our historical financial and operating results therefore may not be indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability.

Our revenue, expenses and operating results may vary from period to period and may fluctuate due to a variety of factors, some of which are beyond our control. Such factors include changes in project schedule, laws, regulations and industry practices in the cleanroom industry, increases in costs of labour and raw materials, conditions of end user industries requiring cleanroom facilities in the PRC and Southeast Asia, as well as our ability to estimate and control costs, operating expenses and work progress for each contract.

Approximately 39.4%, 55.9%, 69.2% and 65.2% of our revenue in FY2017, FY2018, FY2019 and 3M2020 respectively were generated from cleanroom projects, which we recognise revenue in our accounts over time, based on the percentage of completion. We generally complete these contracts within six to nine months. As such, our revenue, and as a result, our profit, may fluctuate period-over-period subject to when we sign the contracts and commence our work, and in turn the timing of our revenue being recognised based on the percentage of completion. As such, period-over-period comparisons of our operating results during the Track Record Period may not be indicative of our future performance. Furthermore, our revenue and results of operations may fluctuate significantly between different periods within a particular financial year. You should not rely on them to predict our future performance.

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We had net cash used in operating activities for FY2017 and FY2019. Failure to manage our liquidity and cash flows may materially and adversely affect our business, results of operations and financial condition.

In FY2017, we generated approximately RMB31.5 million positive cash flow from our operations before working capital changes but such was offset by the net working capital outflow of approximately RMB23.3 million and income tax paid of approximately RMB9.2 million. As a result, we recorded net cash used in operating activities of approximately RMB1.0 million. During the year, we experienced a net working capital outflow of approximately RMB23.3 million which was mainly because (i) increase in trade and other receivables of approximately RMB23.8 million and contract assets of approximately RMB5.8 million was more than the net increase in trade and other payables and contract liabilities of approximately RMB10.3 million and (ii) increase in inventory of approximately RMB4.0 million. The increase in trade and other receivables and contract assets reflected the increase in revenue in FY2017 (resulting in higher receivables) and higher level of trade receivables and contract assets which were not yet due for payment as significant amount of works was only certified by our customer relating to projects in the PRC before the year end.

In FY2019, we generated approximately RMB37.3 million positive cash flow from our operations before working capital changes but such was offset by the net working capital outflow of approximately RMB36.6 million and net income tax paid of approximately RMB5.1 million. As a result, we recorded net cash used in operating activities of approximately RMB4.5 million. During the year, we experienced a net working capital outflow of approximately RMB36.6 million which was mainly because (i) increase in trade and other receivables of approximately RMB34.6 million and contract assets of approximately RMB28.0 million was more than the increase in trade and other payables and contract liabilities of approximately RMB24.0 million and (ii) decrease in inventory by approximately RMB2.0 million. The increase in trade and other receivables and contract assets reflected the increase in turnover in FY2019 (resulting in higher receivables) and higher level of trade receivables and contract assets which were not yet due for payment as a result of the relatively higher revenue recognised in November and December 2019.

Our ability to generate adequate cash inflows from operating activities in the future will depend in large part on our ability to collect receivables from our customers in a timely manner. If we are not able to generate sufficient cash flows from our operations or obtain sufficient financing to support our business operation, our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

Defective or unsatisfactory products or products which fail to comply with safety and quality standards may lead to a loss of customers and sales and may subject us to product liability claims, which could result in significant costs or negatively affect our reputation.

Our business involves the design, manufacturing and (if required) installation of cleanroom wall and ceiling systems as well as equipment, which may contain undetected errors or defects that may be subsequently detected at any point in the life of the product. While we formulate and implement extensive quality control processes, we face the inherent risk of exposure to warranty claims and product liability actions in the event that our products fail to perform as expected and,

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in the case of product liability actions, such product failure results in bodily injury and/or property damage. For further information on our quality control processes, please see “Business — Quality control and assurance — Quality Control and Assurance Procedures” for details.

If flaws in either the design or manufacture of our products were to occur, we may experience an increased rate of failure in our products that could result in, among others, (i) significant delays in shipment, (ii) product re-work or replacement costs, (iii) loss of sales, (iv) delay in market acceptance, (v) damage to our reputation or (vi) increased warranty costs. Additionally, any failure by us in executing on our product deliverables in accordance with their specifications could also endanger our customers’ business relationship with their end customer.

Any successful claim against us in respect of any defect in our products may result in not only substantial liability on and financial loss to our Group, but also negative publicity and a deterioration of our brand image. We cannot assure you that we will not experience claims in respect of our product quality in the future. Any such claim may have a material and adverse effect on our financial condition and results of operations.

Unsatisfactory performance of our subcontractors or unavailability of subcontractors may adversely affect our operation and profitability.

We subcontract our installation services to subcontractors in our ordinary course of business. For FY2017, FY2018, FY2019 and 3M2020, expenses for our subcontracting arrangements amounted to approximately RMB11.4 million, RMB27.9 million, RMB25.7 million and RMB4.3 million, respectively. We evaluate subcontractors by taking into account, among other things their technical capacity, service quality, price, management, credibility and track record. See the section “Business — Raw Materials, Suppliers and Subcontractors — Subcontracting” for details.

Outsourcing exposes us to the risks associated with non-performance, delayed or sub-standard performance by our subcontractors. While we send our own staff to supervise the installation work, we may not be able to monitor the performance of our subcontractors as directly and efficiently as we could if they were our own labours. There is no assurance that the work quality of our subcontractors can always meet our requirement. As a result, we may incur additional costs or be subject to liability under the relevant contracts between us and our customers for our subcontractors’ unsatisfactory performance. Such events could impact upon our profitability, financial performance and reputation.

We generally do not sign any long term contracts with our subcontractors. There is no assurance that they will be able to continue to provide services to us at prices acceptable to us or whether we can maintain our relationship with them in the future. In the event that subcontractors are unable to provide the required services to us and we are unable to obtain alternative providers on similar or more favourable terms, or if the costs for them to provide those required services increase substantially, our business, results of operations and profitability may be adversely affected.

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We determine our quotation or tender price based on the estimated time and costs involved in a contract which may deviate from the actual time and costs involved and any material inaccurate estimation may adversely affect our financial results.

We determine the price of our quotation or tender based on our estimated cost plus certain mark-up margin. For further details of the factors we take into account when making our cost estimate, see the section “Business — Sales and Marketing — Pricing policy”. As our contracts with customers during the Track Record Period were generally fixed price contracts, once we agree on the quotation or tender price with our customer, we generally will have to bear any additional costs incurred. For details on our operation flow, see the section “Business — Sales and Marketing — Sales process”.

The actual time and costs incurred by us, however, may be adversely affected by various factors, including (i) specifications and difficulties of the contract; (ii) duration of the contract; (iii) site locations; (iv) unfavourable weather conditions; and (v) resources availability. Significant changes in any of these or other relevant factors may lead to delay in completion or costs overrun by us, and there is no assurance that the actual time and costs incurred by us would match our initial estimate. Such delays, cost overruns or mismatch of actual time and costs with our estimates may cause our profitability to be lower than what we expected or may expose us to litigation or claims from customers in case of delays, thereby adversely affecting our operations and financial results.

If we set a significant mark-up margin to cater for the unfavourable circumstances above, our tender may become uncompetitive. There is no assurance that we will always be able to price our tender competitively. If we fail to do so, our customers may opt for our competitors, thereby resulting in a decrease in the number of contracts awarded to us. This would adversely affect our operations and financial results. Meanwhile, if the mark-up margin set by us is too low, we may not be able to cover the financial impact of any unfavourable circumstances during contract implementation. Our profitability in the contract would hence be adversely and materially affected. As such, any material inaccurate estimation in the time spent and costs incurred in a contract may result in a lower profit than originally contemplated, despite any buffer we may have accounted for in our tender submission, which will also adversely affect our profit margin and operational results.

Furthermore, the contracts we entered into during the Track Record Period normally contain specific completion schedule requirements and liquidated damages provisions (i.e. we may have to pay our customers liquidated damages if we or our subcontractors do not meet the schedules). We may need to pay liquidated damages resulting from any failure to meet the completion schedule requirements of our contracts, to the extent that our customers do not grant us time extension. This may reduce or diminish our expected profit and cash inflow from the relevant contracts.

Our business is project-based in nature and we may be unable to make accurate production planning.

Cleanroom construction is a project-based business and we generally do not enter into long-term sales agreement with customers. We receive from our customers, from time to time, invitations to tender or requests for quotation, and we are generally required to submit our

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tender submission within one to two weeks, and quotation within one to four weeks. Due to the time constraint in meeting specific customer order, we may not be able to make accurate production planning to best utilise our production capacity. Furthermore, due to the project-oriented and lack of seasonality nature of our industry, historical customer orders and production utilisation may not be indicative of customer demand in the future. As such, where our production capacity has already been allocated to fulfil ongoing contracts, we may not be able to meet additional customer demands and we may need to forego potential business as a result. Constrained by our inability to match future production load with materials and production capacity through an accurate production planning, our business and financial results would be materially and adversely affected.

Our business depends on the strength of our brand and reputation and any failure to maintain and enhance our brand and reputation may materially adversely affect the level of market recognition of, and trust in, our products.

We consider that reputation of “Channel Systems” and “Micron” brands is critical to the success of our products and believe that our brands are recognised among our customers in terms of quality and reliability and have established us as a reputable cleanroom facility provider in the PRC and Malaysia. We believe that our business growth depends heavily on our customers’ perception of our brands and our products we anticipate that we will continue to rely on our brands in our future business.

In particular, our brands, reputation and product sales could be materially and adversely affected if (i) our products contain defects or faults; (ii) our products do not meet the expectations or requirements of our customers; (iii) our customer services including our after-sales services are considered ineffective and unsatisfactory by our customers; (iv) we fail to deliver our products on time; (v) we are subject to product liability claims; or (vi) we are subject to significant product recall. If we fail to promote our brands or to maintain or enhance the brand recognition and awareness amongst our customers, or if we are subject to events or negative allegations affecting our brand image or our potential customers’ perception of our brands, our business, our operating results and our financial condition could be adversely affected.

We are exposed to credit risks of our customers.

We may grant our repeat customers different credit periods depending on our relationship and negotiation with the relevant customer. For some of our cleanroom projects, we issue monthly progress statements to our customers in respect of the value of the work we have performed in the preceding month, and subject to our customer’s confirmation, thereafter we will issue the invoices with a credit period in accordance with the provisions of the contract. If required by our customers, we also allow a portion of the contract value to be withheld by our customers as retention money, which is generally released after 12-24 months from the date of completion of the contract. Nonetheless, we have to incur various costs, such as purchase costs of productions materials and salary payments to our workers after commencement of our contracts. For further details on our payment and credit terms and our credit control methods, see the section “Business — Sales and Marketing — Payment terms and credit control”.

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Some customers may not strictly adhere to the payment terms stipulated in our contracts with them. During the Track Record Period, our average turnover days of trade receivables ranged from 75.7 days to 141.5 days. For further details of the fluctuations in our trade receivables from customers and trade receivables turnover days, see the section “Financial information — Trade and other receivables — Trade receivables”. As such, we are subject to credit risks of our customers and our liquidity is dependent on our customers making prompt payments and release of retention monies due to us. We cannot assure you that we will be able to recover all or any part of the amounts due from our customers or that we will be able to collect all or any part of the retention receivable from our customers within the agreed terms or at all.

There is no assurance that our cash flow management measures could sufficiently prevent against strain on our cash flow caused by credit mismatch or at all. If there were any significant and substantial cash flow mismatch, we might have to raise funds by resorting to banking facilities as well as equity financing in future, in order to meet our payment obligations in full and on time. If we fail to properly manage our liquidity position in view of such working capital requirements and the possible cash flow mismatch associated with undertaking contract works, our cash flows and financial position could be materially and adversely affected.

Unexpected disruptions in the operations of our production facilities or production process may materially and adversely affect our business and results of operations.

Our PRC Factory is in Pudong New Area, Shanghai, the PRC, while our Malaysia Factory is in Shah Alam, Malaysia. We also rented the Additional Warehouse from April 2020 for one year. Most of our production processes involve the use of machineries. As at the Latest Practicable Date, the approximate estimated remaining useful lives of our major production machineries and equipment ranged from approximately one year to 27 years. Our business operations are heavily dependent on the smooth operations of these production facilities. For further details on our production facilities, see the section “Business — Production — Production Processes”.

Our production facilities are subject to operation risks and disruptions such as interruptions of utilities supplies including water and electricity, labour disputes and industrial accidents. A power surge or outage could disrupt or even result in the halt of our production process and thereby adversely affect our manufacturing yield. There is no assurance that our machinery will not be damaged or lost as a result of, among others, improper operation, fire, adverse weather conditions, theft or robbery. We may also need to incur additional cost to repair or replace any damaged machinery or equipment. Machinery may also break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or replaced, or if any lost machinery cannot be replaced, in a timely manner, our operations and financial performance could be adversely affected. In addition, our production process may be disrupted due to (i) natural disasters such as typhoons, earthquakes and floods; (ii) political instability, riots, civil unrest and terrorist attacks; (iii) epidemics such as the Severe Acute Respiratory Syndrome, or SARS, the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or, most recently, the novel coronavirus named COVID-19 by the WHO, since it could require our employees to be quarantined and/or our office premises and production facilities to be suspended; and (iv) other events that are beyond our control in the regions where we operate.

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The occurrence of any of the above disruptions may limit or restrict our production output and may potentially require us to compensate our customers for failure to deliver our products in accordance with the customer's requirements. We may lose customer loyalty and confidence as a result. Furthermore, our production volume and the utilisation rates of our production facilities may be materially and adversely affected, which may result in a decline in our gross profit margin and profitability. As we do not maintain insurance to protect against certain claims associated with business interruption, any loss from business interruption could adversely impact our business, results of operations and financial condition.

Our production facility may fail to remain efficient or meet our production requirements in the future.

Our future growth will depend upon our ability to maintain efficient operation at our existing production facilities and our ability to expand our production capacity as needed. In FY2017, FY2018, FY2019 and 3M2020, the utilisation rate of our PRC Factory were approximately 69.0%, 97.8%, 99.9% and 70.1%, respectively, and the utilisation rate of our Malaysia Factory for cleanroom walls and ceiling systems production were approximately 98.4%, 99.8%, 99.9% and 60.3%, respectively, and that for cleanroom equipment production were approximately 87.6%, 93.6%, 92.1% and 44.6%, respectively. The utilisation rate of our production facilities depends primarily on the demand for our products and the availability and maintenance of our equipment but may also be affected by other factors, such as progress of our cleanroom contracts, the availability of employees, a stable supply of electricity, seasonal factors and changes in environmental laws and regulations.

In order to meet our customers' demands and advancements in technical requirements, we carry out maintenance of our equipment regularly. However, our production facilities may fail to perform as expected. The equipment that we install in our production facilities may not operate as planned. Unexpected problems may force us to cease or delay production, and the time and costs involved with such delays may be substantial. If our production facilities are unable to maintain efficiency, we may be unable to fulfil our delivery schedule in a timely manner, or at all, which would negatively impact our reputation, and cause us to lose customers.

Furthermore, as we continue to grow and expand our business, we expect to expand our production facility to increase our production capacity. If we are unable to acquire the necessary equipment or production facility at an acceptable price, or at all, we may not be successful in achieving our business expansion plans. Any prolonged or significant disruption to our expansion plan may adversely affect our business, financial condition and results of operations. Further details of which are set out in the paragraphs headed "Our expansion and future plans might not be successful and could contribute to the fluctuations of our financial results" and "Unexpected disruptions to our production facilities or production process may materially and adversely affect our business and results of operations" in this section.

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Our ability to meet demands in the PRC market is limited by external constraints.

During the Track Record Period, we produced our cleanroom walls and ceilings in both of our PRC Factory and Malaysia Factory, while we produced cleanroom equipment only in our Malaysia Factory. Our PRC Factory generally supplies to our PRC customers and contracts, while our Malaysia Factory generally supports our sales in Southeast Asia and other overseas countries. While both of our PRC Factory and Malaysia Factory manufacture cleanroom walls and ceilings, as our business is project-based in nature, in the event where our PRC Factory is fully utilised for fulfilling existing contracts, we may not necessarily be able to rely on our production capacity at our Malaysia Factory to support our PRC Factory, due to (i) the import duties for the importation of cleanroom products into the PRC under the Customs Law of the PRC, and (ii) overseas transportation costs of semi-finished/finished goods to our PRC Factory for onward fulfilment of contracts, both of which would increase our manufacturing overheads. Furthermore, we are disincentivized to import cleanroom equipment to the PRC, which we currently only produce in our Malaysia Factory, due to the above factors. As such, even if we receive more invitation for tender/request for quotations from the PRC market in the future, we may not be able to meet their demands with our production capacity in Malaysia due to the above external constraints.

We operate in a competitive environment in the PRC.

According to the Industry Report, the cleanroom walls and ceilings market in the PRC is competitive and fragmented, and the top 10 players accounted for 18.5% of total market share in 2019. Our Group accounted for a market share of 1.1% in 2019. For more details, please refer to “Industry Overview — Competitive Analysis of Cleanroom Facility Market — Competitive Landscape of Cleanroom Facility Market in China”. Some of the market players may have significantly more resources and are better positioned than our Group, including having a longer operating history, better financing capabilities and more well-developed technical expertise. If we cannot adapt effectively to market conditions and customer preferences or otherwise fail to provide a competitive bid as compared to our competitors, our cleanroom products may not be attractive to customers and our business may be materially and adversely affected. If we fail to maintain our competitiveness in the PRC in the future, the sustainability of our business, our financial condition and results of operations may be materially and adversely affected.

Fluctuation in the availability, price and quality our raw materials may materially and adversely affect our business and results of operations.

Our raw materials mainly include components for cleanroom, aluminium and steel coil. Raw materials used in our PRC Factory are generally procured domestically in the PRC. Raw materials used in our Malaysia Factory are also generally procured domestically in Malaysia, save for steel coil and aluminium honeycomb core, which are imported from the PRC. For FY2017, FY2018, FY2019 and 3M2020, our cost of raw materials accounted for approximately 64.4%, 58.0%, 66.3% and 47.3%, respectively, of our total cost of sales over the same periods. The prices of our raw materials are most affected by the price fluctuations of steel and aluminum. See the section “Business — Raw materials, suppliers and subcontractors” for details.

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Our ability to complete a customer's contract on time is dependent on our ability to source quality raw materials as well as the timely delivery of sufficient raw materials. Supplies of raw materials are subject to a variety of factors that are beyond our control, including interruption of suppliers' business, unfavorable weather conditions for transportation and the amount of steel and aluminum available in the market. There is no assurance that our suppliers will be able to supply and deliver the required raw materials to us in a timely manner or that the raw materials they supply to us will not be defective or sub-standard. Any delay in the delivery of raw materials or any defect in the raw materials supplied to us may materially and adversely affect or delay our production schedule. If we cannot secure raw materials of similar quality and at reasonable prices from alternative suppliers in a timely manner or at all, we may not be able to deliver our products to our customers on time. In such circumstances, we may lose customer loyalty and confidence. This may also harm our reputation and our results of operations and financial condition may be materially and adversely affected.

Raw materials used in our production are subject to price volatility caused by external conditions, such as market supply and demand, commodity price fluctuations, currency fluctuations, changes in governmental policies and natural disasters. Although we carry out rigorous budget estimation before submission of tenders, our ability to pass increased raw materials costs on to our customers may be limited by competitive pressure. We cannot assure you that we will be able to raise the prices of our products sufficiently to cover increased costs resulting from increases in the cost of our raw materials or overcome the interruption of sufficient supply of qualified raw materials for our products. Any increase in the market prices of our raw materials could therefore significantly increase our cost of sales and may thereby have a material adverse effect on our profitability.

Failure to maintain appropriate inventory levels could cause us to lose sales or face excessive inventory risks and holding costs, which could have a material adverse effect on our business, financial condition and results of operations.

We usually maintain a certain level of raw materials inventory to ensure timely delivery of products ordered by our customers. Our inventory balance accounted for 7.1% of our total assets as at 31 March 2020. We generally procure raw materials upon confirmation of our technical drawing. For standard materials that are used commonly in our products, we generally maintain a small inventory. For further details on our inventory control methods, see the section "Business — Warehouse and inventory control".

There is no assurance that we will have accurate forecast on our purchase and there may be an increase in inventory level in the future. If we fail to effectively manage the level of our inventories, we may experience a heightened risk of inventory obsolescence, a decline in inventory value and significant inventory write-downs or write-offs. Any of the above circumstances may materially and adversely affect our financial condition and results of operations.

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Failure to recover our contract assets, or that retention money is not fully released to our Group, may affect our Group's cash flows and profitability.

Unbilled revenue arises when revenue had been recognised for the completion of cleanroom construction services that had been approved by our customers (supported by the customer-certified progress reports) or upon delivery of sales of goods before we are unconditionally/contractually entitled to the payment under the terms set out in the contracts. For example, in the contracts with some of our customers, there is a payment term that we are only entitled to payment of our services or sales of goods after they have received the corresponding payments from their customers (i.e. the facility owners). Under such circumstance, we are not entitled to issue our invoice even though revenue is recognised. Therefore we are subject to credit risk arising from unbilled revenue in our contract assets. Furthermore, we are also subject to the risk that a Group's customer may not pay in accordance with the terms of the agreed payment schedule once the amount has been billed and the relevant risk is further explained in the risk factor headed "We are exposed to credit risks of our customers". As at 31 December 2017 and 2018 and 2019 and 31 March 2020, our contract assets (net of ECL allowance) were approximately RMB23.2 million, RMB21.8 million, RMB48.8 million and RMB33.8 million, respectively. As at 31 March 2020, our contract assets of over 365 days was approximately RMB7.3 million, among which approximately RMB3.5 million were unbilled revenue. We may not be able to bill all or any of the contract assets to our customers, or may not be able to bill such customers within the expected timeline.

Moreover, in some contracts with our customers, our customers have the right to withhold 3% to 10% of the contract value as retention monies, which will only be released until the end of the retention period. As at 31 December 2017, 2018 and 2019 and 31 March 2020, retention monies held by our customers amounted to approximately RMB7.7 million, RMB6.5 million, RMB14.7 million and RMB13.5 million, respectively.

If we do not recover our contract assets or recover our retention money, our liquidity and financial position may be materially and adversely affected.

We are subject to fair value change for our financial assets at fair value through profit and loss and valuation uncertainty due to the use of unobservable input.

During FY2018 and FY2019, our Group has short-term investments in bank wealth management products which fair value is measured based on cash flow discounted using the expected return based on management judgement and estimates. According to our accounting policy in respect of fair value measurements, the valuation basis of our financial assets amounts to unobservable input for the relevant asset (level 3 fair value measurement). Should there be any valuation uncertainties from such unobservable input, the value of our financial assets recognised in profit or loss due to fair value change may be overestimated or underestimated by our management. The fair value of the financial assets as at 31 December 2017, 2018, and 2019 and 31 March 2020 was nil, approximately RMB4.0 million, RMB9.0 million and nil, respectively. See "Financial Information — Description and analysis of principal components in the consolidated statements of financial position" for details of our financial assets. We cannot guarantee that the fair value of our financial assets will not fall or always remain stable. If there is a decrease in fair value of our financial assets, our results of operations and financial conditions may be adversely affected.

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We may fail to adapt to rapidly changing technology trends and evolving industry standards and our research and development efforts to diversify and improve our products may not be successful.

The cleanroom industry in which we compete is characterised by intensive development efforts and rapidly advancing technology. Changes in industry requirements or in competitive technologies may render certain of our products less attractive or obsolete. Our ability to anticipate changes in technology and industry standards and to successfully develop and introduce new and enhanced products on a timely basis is crucial to our ability to remain competitive and to maintain or increase our revenues.

Our product development efforts are driven by our customers' changing needs and requirements, which depends heavily on our ability to identify technological and market trends and to develop and expand our product offerings. For instance, automation and digital technologies such as manufacturing execution system (MES) and IoT technology are among some of the technological advancements that could be applied to the cleanroom facility manufacturing process. Furthermore, conveyor belt system, robotic arms application and laser cutting could also be applied to the cleanroom facility manufacturing process. If we fail to improve our production process to keep up with the advancement in technology, we may not be able to remain competitive if other market players are able to offer products that are manufactured with shorter lead time and more cost-effectively.

We cannot assure you that certain of our products and technical knowhows will not become obsolete or that we will be able to achieve the technological advances that may be necessary for us to remain competitive and maintain or increase our revenues in the future. We may not be successful in identifying, developing and marketing new products or enhancing our existing products to keep in pace with the changing industry standards and technology trends, such as airborne molecular contaminants control technology, more efficient energy consumption, heat transfer across panels, customisable panels to suit the needs of the end customers, and more advanced remote control and monitoring of cleanroom equipment. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development or production and failure of products to operate properly.

Developing new products can be time-consuming. Based on our experience, the service and product development process is a lengthy process that may take a long time before services and products can be commercially launched or adopted. There is no assurance that our service and product development projects can be completed within the anticipated time frame and our research and development efforts may not lead to new services and products that are commercially successful.

Development and manufacturing of new products would require us to make substantial capital investment (including expenditures on new R&D and manufacturing equipment and facilities, employment of skilled technicians and engineers for development of new design, technologies and technical knowhow required for new products), innovation, skill and experienced R&D technicians, and accurate anticipation of technological and market trends. Any capital expenditure reductions in these areas that we may implement in the future could reduce our ability to develop and implement technological innovations to enhance our current product line, which may materially reduce demand for our products.

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We engage third party logistics service providers to deliver our products, and their failure to provide timely and high quality logistics services to our customers may adversely affect our brand image and our financial condition.

We engage Independent Third Party logistics service providers for the delivery of our products to our customers. See the section “Business — Sales and Marketing — Logistics and delivery” for further details. Delivery disruptions such as transportation bottleneck, inclement weather and natural disaster, social unrest, vehicle breakdown, labour strike or other circumstances beyond our control may result in delayed or lost deliveries. Notwithstanding that aforementioned situations did not cause material disruption to our business and operations during the Track Record Period, there is no assurance that the logistics service providers will be able to deliver our products according to the delivery schedule or provide high quality services to our customers. If there is prolonged bad weather, our delivery schedule may be adversely affected.

If we cannot secure the transportation necessary for the delivery of our products to our customers or if we are unable to secure economically-feasible alternative methods to transport our products during disruptions of transportation systems which are beyond our control, our raw material supply may interrupt our production. If the logistics service providers fail to deliver our products to our customers on time or if our products are damaged in the course of delivery, our customers may refuse to accept our products and our reputation and brand image may suffer as a result. We may also be subject to penalties in the event of late delivery, which may materially and adversely affect our financial position. In addition, any significant increase in the cost of transportation, such as fuel cost, will increase our operating expenses. Any of the foregoing event could have a negative effect on the competitiveness of our products and our financial conditions.

We may not be able to adequately protect our intellectual property rights and may be exposed to third-party claims of infringement or misappropriation of intellectual property rights.

Our intellectual property rights include our patents, trademarks, software copyrights and domain name. We also rely on proprietary technologies or know-hows that are unpatented or for which we are applying to be patented. See “Statutory and General Information — B. Further information about our business — 2. Material intellectual property rights” in Appendix V to this prospectus for further details of our material intellectual property rights. Our intellectual property and unpatented proprietary technology play an important role in maintaining our competitive position in a number of the markets which we serve.

We cannot assure you that our efforts to safeguard our intellectual property rights are adequate or that our intellectual property rights will not be infringed by any third party in the future. As we expand our operations in jurisdictions where the protection of intellectual property rights is less robust, the risk of others duplicating our proprietary technologies increases, despite efforts that we undertake to protect them. Any unauthorised use of our proprietary technologies or trademarks may divert significant business to our competitors and damage our brand names. We may resort to legal proceedings in order to protect and enforce our intellectual property rights and the legal fees and expenses involved in such proceedings can be substantial. Furthermore, the diversion of resources and our management’s effort and attention in addressing such intellectual property claims may significantly affect our business operation and development.

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Further, there is no assurance that third party will not initiate infringement claims against us, as a result of which we may become subject to legal proceedings and claims from time to time alleging amongst other things infringement of copyrights, trademarks or patents, or misappropriation of creative ideas or formats, or other infringement of proprietary intellectual property rights. Any such claims, regardless of merit, may involve us in time consuming and costly litigation or investigation, divert significant management and staff resources, require us to enter into expensive royalty or licensing arrangements, prevent us from using important technologies, business methods, content or other intellectual property, result in monetary liability, prevent us from distributing our products, or otherwise disrupt our operations.

Our business involves inherent industrial risks and occupational hazards. Any claims arising from personal injuries or industrial accidents caused to our or our subcontractors' employees may materially and adversely affect our business operation and financial results.

We conduct a wide range of manufacturing activities in our facilities and engage subcontractors to provide installation service at the facilities of the end users. Given the nature of our business, accidents or mishaps may occur at the worksites even though we have put in place certain safety measures. During the Track Record Period, there was no material work injuries.

We rely on our staff and subcontractors to oversee the implementation of work safety measures and procedures. We cannot guarantee that all of the work safety measures and procedures are strictly adhered to at all time nor can we assure you that our safety measures and procedures can prevent the occurrence of industry accidents of all kinds. There is no assurance that there will not be any violations of rules, laws or regulations or breach of safety measures and procedures imposed by our Group on the part of the subcontractors. In the event that our subcontractors fail to implement safety measures at the worksites and personal injuries, property damage or fatal accidents occur, litigation may arise which will adversely affect our Group's reputation and financial position. We cannot guarantee that third parties or workers at the worksites will comply with the safety measures and procedures during the execution of works. Any industrial accidents may disrupt our production activities and subject us to claims by or potential liabilities to our employees or third parties as well as government penalty. Any of the foregoing events may have a material adverse effect on our financial condition and results of operations.

We may lose or fail to attract and retain management personnel, engineers or other employees with the required expertise and skills. Labour shortages and increase in labour cost may have an adverse effect on our business operations.

As at 31 March 2020, we had 163 employees. For FY2017, FY2018, FY2019 and 3M2020, our employee benefit expenses amounted to approximately RMB21.2 million, RMB22.4 million, RMB26.9 million and RMB5.0 million, respectively. Our executive Directors, including Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap, and other members of our senior management, including Loh Wei Loon, Luah Kok Lam, Hartono Liu Chan Ong and Khor Why Ping, have been instrumental in achieving our growth during the Track Record Period. For details of the qualification of our Directors and senior management, see the section "Directors and Senior Management". Our success also depends to a significant extent on the continued service of our

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mid-level management, engineers, skilled technical personnel and marketing and sales personnel and on our ability to continue to attract, retain and motivate such personnel. We have entered into a service agreement with each of our executive Directors and employment contracts with our senior management and engineering and technical personnel. These service agreements and employment contracts can be terminated by either us or our Directors or employees. Our management team and skilled employees may leave us or we may terminate their employment at any time.

Our success depends on our ability to attract and retain a competent management team, engineers and other employees with required expertise and skills. Our ability to do so is influenced by a variety of factors, such as the compensation package that we offer. Labour cost has increased significantly in the PRC in recent years. Apart from inflation, the implementation of the Labour Contract Law of the PRC (中華人民共和國勞動合同法) has increased our labour cost in the PRC, which has in turn increased our production cost. Our Directors expect that our labour cost will continue to increase in the future. If labour cost in the PRC continues to increase and we are unable to pass such increase in cost to our customers in a timely manner or adopt appropriate or effective means to reduce our labour cost, our profitability and results of operations may be materially and adversely affected.

There is no assurance that we will be successful in retaining and recruiting suitably qualified management and employees in sufficient numbers and in time for our existing and future operations at reasonable cost or at all, and any prolonged shortage of labour could materially and adversely affect our operations, relationship with customers, our market reputation and financial results. Any significant increase in labour costs could adversely affect our margins and profitability if we are not otherwise able to raise the price we charge our customers. If any of our management team or skilled employees leaves us or joins a competitor, we may lose customers, subcontractors, suppliers and know-how. If we experience a shortage of labour, we may not be able to maximise our production volume or fully utilise our production capacity, which may hinder our future business growth or delay our business expansion plans. Any labour shortage in the regions where we operate may force us to recruit from a wider geographical region and/or at a higher cost, which may have an adverse impact on our labour cost. Furthermore, there is no assurance that we will not experience any labour strike or dispute in the future. Each of these foregoing factors may have a material adverse effect on our business, results of operations and financial condition.

The preferential tax treatment that we currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition.

Micron Technology and Channel Systems (Asia) are licensed manufacturing warehouses and are exempted from having to pay import tax over raw materials and components imported for the purpose of the manufacturing and production of new finished goods as long as all the requirements under such scheme are met, including but not limited to that 80% of their end products are for export purposes. Based on the information available to, and to the best knowledge of, the Malaysia Legal Advisers, Micron Technology and Channel Systems (Asia) are in compliance of the terms and conditions under the LMW License. See the section “Regulatory Overview — Laws and regulations of Malaysia — V. Customs Act 1967” for details. The tax effect of the import tax exemption enjoyed by Micron Technology and Channel Systems (Asia) was approximately RMB1.4 million, RMB1.3 million, RMB1.4 million and RMB0.1 million for FY2017, FY2018, FY2019 and 3M2020, respectively.

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Channel Systems (Shanghai) has been identified as a High-tech enterprise according to the Notice on Amending and Issuing the Measures for Determination and Administration of High-tech Enterprises) (《高新技術企業認定管理辦法》), and therefore enjoy tax benefits of corporate income tax at the reduced tax rate of 15%. See the section “Regulatory Overview — Laws and Regulations of the PRC — J. Legal supervision over the Chinese tax — 1. Enterprise Income Tax (“EIT”)” for details. The tax effect of the preferential tax treatment enjoyed by Channel Systems (Shanghai) in respect of the accreditation as a high-tech enterprise was approximately RMB0.8 million, RMB1.4 million, RMB1.3 million and nil for FY2017, FY2018, FY2019 and 3M2020, respectively.

Any unfavourable change, such as any reduction, discontinuation or cancellation of the aforementioned tax exemption and benefits may result in decrease in tax savings and an increase in effective tax rate of our Group. In particular, if our subsidiaries in Malaysia are no longer qualified as licensed manufacturing warehouses under the above scheme, our financial performance may be materially and adversely affected as we will be required to pay more tax.

Fluctuations in the exchange rates of foreign currencies against RMB may cause losses to us and adversely affect our profitability.

We have transactional currency exposures. Most of our production cost and operating expenses for our PRC Factory are primarily denominated in RMB, while that for our Malaysia Factory are denominated in both RM and RMB, as our Malaysia Factory procures steel coil and aluminium honeycomb from the PRC but other raw materials domestically. Our revenue recorded in the PRC is mainly denominated in RMB while that recorded in Malaysia are denominated in SGD, RM and USD. Further, our reporting currency is RMB, and we are exposed to translational foreign currency risks primarily as a result of revenue that is denominated in foreign currencies other than RMB and purchases that are denominated in foreign currencies other than RMB. As such, fluctuations in foreign exchange rates could result in exchange loss and affect both of our gross profit and gross profit margin. For FY2017, we recorded net foreign exchange losses of approximately RMB2.8 million. For FY2018, FY2019 and 3M2020, we recorded net foreign exchange gain of approximately RMB0.1 million, RMB0.8 million and RMB0.5 million, respectively.

Moreover, the recent resignation of Mahathir Mohammad as the Malaysian Prime Minister and the change in the Malaysian Government in March 2020 may suppress investor confidence and pose uncertainties, which may exert pressure onto RM and cause fluctuations or even depreciation against other currencies.

Currently, we do not have any foreign currency hedging policy and are therefore subject to foreign currency risk. Any significant adverse fluctuations in the exchange rates between USD, RM and SGD against RMB may materially and adversely affect our results of operations, value of our assets, earnings or any declared dividends. Any unfavourable movement in the exchange rate may lead to an increase in our costs or a decline in sales, which could materially and adversely affect our business, financial condition and results of our operations. We cannot predict the impact of future exchange rate fluctuations on our results of operations nor is there any assurance we will not incur any net exchange loss in the future. For further details on foreign currency risk exposures and related sensitivity test, see note 34.2 to the Accountants’ Report in Appendix I.

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Our expansion and future plans might not be successful and could contribute to the fluctuations of our financial results.

Our future growth may depend on the successful implementation of our business strategies set out in the section “Business — Our Strategies”. The successful implementation of our business strategies and future plans will depend on various factors, including but not limited to our ability to (i) retain our major customers; (ii) enhance our production efficiency; (iii) retain our existing workforce and recruit new staff members at a rate that is consistent with our business growth; (iv) the availability of management and financial resources; (v) diversity and improve our products to adapt to changing industry and market trends; and (vi) explore new business opportunities. Our expansion plans and business growth could strain our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth, our expansion plans will be implemented, as we expect or at all, or the implementation of such plans will result in an increase of our revenue or profit.

The ramp-up schedule for any expansion plan may be adversely impacted by various factors, many of which are beyond our control, including, but not limited to, (i) delay in delivery of major equipment or failure of equipment and machinery to perform according to specifications or our expectations; (ii) difficulties in financing our capital expenditure and working capital requirements; (iii) unforeseen conditions or developments that could substantially delay our planned expansion, including equipment and machinery malfunctions once operations commence; (iv) achieving weaker market reception than we expected; and (v) difficulty in recruiting sufficient qualified workers. We cannot assure you that our expanded production facilities will achieve the utilisation rate of our existing production facilities, if at all. The expansion plan together with the additional investment in fixed assets (for instance, acquisition of machinery) may result in increase in depreciation expenses and other operating expenses. Therefore, any of the above conditions could materially and adversely affect our business, financial conditions and results of operations if our revenue does not increase proportionately with our operating expenses for our expansion plan.

Therefore, there is no assurance that we will be able to successfully implement our business strategies or future plans. Even if our business strategies or future plans are implemented, there is no assurance that they will increase our market share or enhance our market position. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects. In addition, as we expand our operations, we may encounter regulatory, cultural and other difficulties that may also increase our costs of operations.

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Our plan to expand production capacities in Malaysia may incur additional depreciation and other operating expenses which may affect our profitability.

We estimate that the capital expenditure expected to incur on expanding our production capacities in Malaysia will amount to approximately RM38.6 million for acquisition of a factory building, renovation, relocation and acquisition of machinery and equipment in Malaysia by 2021. Depreciation of property, plant and equipment is calculated using a straight-line method to allocate their costs less their residual values over their estimated useful lives. We expect to incur additional depreciation expenses and other operating expenses (e.g. salaries of additional staff), as a result of the expansion. These expenses will be recognised in our profit or loss, which may in turn adversely affect our results of operations and financial conditions. See “Business — Our strategies — Strategies for the Southeast Asian market — Expand and relocate our production facility in Malaysia to cater for our growth in Southeast Asia and other countries — New Malaysia Factory” for details of our proposed expansion plan.

Our historical growth rate, revenue and profit margin may not be indicative of our future growth rate, revenue and profit margin.

Historical financial information of us only reflects our past performance under particular conditions and thus may not be reliable to be used for projection or estimation of our financial performance in the future. We may not be able to sustain our historical growth rate, revenue and profit margin for various reasons, including, intensification of competition among cleanroom contractors, aggravation in labour shortage, and other unforeseen factors such as adverse weather and geological conditions, any of which may delay the completion of our contracts, reduce the number of contracts awarded to us, and/or reduce the profit margin of our contracts. We cannot assure you that we will be able to achieve the same performance as we did during the Track Record Period. Investors should not solely rely on our historical financial information as an indication of our future financial or operating performance. For discussion of our results of operation, see the section “Financial information — Summary of results of operations”.

Our insurance coverage may not be sufficient to cover all risks involved in our operation.

Our insurance may not fully cover all the potential loss and claims arising from our operation. Typical claims such as accidents and personal injuries suffered by workers retained by us and our subcontractors are generally covered by the insurance policy maintained by the main contractors of the cleanroom contracts. As to our machinery deployed in the production facilities, we are generally required to maintain our own insurance policy. For details, see the section “Business — Insurance”.

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Although we believe our current insurance coverage is adequate for our operations and appropriate for our current risk profile, we cannot guarantee that our current levels of insurance are sufficient to cover all potential risks and losses. Any uninsured loss or damage to property, litigation or business disruption may result in us incurring substantial cost or diverting our resources, which could have an adverse effect on our results of operations. The damages and losses caused by occurrence of certain incidents, including fire, severe weather, earthquake, war, flooding, power outages may not be adequately covered by our insurance policies or at all. If we incur substantial liabilities that are not covered by our insurance policies, or if our business operations are interrupted for a significant period of time, we could incur costs and losses that could materially and adversely affect our financial condition and results of operations.

As part of the Comprehensive Tax Reform Program, a bill is being drafted which may result in change, or reduction of, incentive available to potential investors in the Philippines.

The Republic Act (R.A.) No. 10963 or the Tax Reform for Acceleration and Inclusion (“**TRAIN**”) Act involves changes in individual income tax, estate tax, donor’s tax, value-added tax, documentary stamp tax and excise taxes. The TRAIN Act is part of the Comprehensive Tax Reform Program of the Philippine Government.

As part of the Comprehensive Tax Reform Program, another bill is being drafted which will focus on corporate income tax and rationalization of incentives, including a proposal to reduce the incentives available to certain industries in the Philippines. If this bill is passed into law, the removal or reduction of the incentives may affect the decision of potential investors to set up business in the Philippines, including foreign facility owners and contractors who had intended to invest in cleanroom facilities in the Philippines. During the Track Record Period, we recorded between approximately 5.3% to 14.5% of our revenue from the Philippines. As such, should the bill be passed to remove the incentives, this may have an impact on investments projects requiring cleanroom facilities in the Philippines and therefore potential business opportunities for our Group, which could materially and adversely affect our financial condition and results of operations in the future.

RISKS RELATING TO OUR INDUSTRY

Our business is dependent on the development of semiconductor and pharmaceutical industries. General economic conditions and other factors causing a material contraction in the sales and production of these industries could have a material adverse effect on our business, results of operations and financial condition.

Our industry is reliant on the demand of semiconductor and pharmaceutical manufacturers and research institutes for cleanroom wall and ceiling systems and equipment as well as installation and maintenance services in the PRC, Southeast Asia and globally, which is in turn significantly affected by the policies of governments, the economic environment and the development of these industries on a worldwide basis. Unfavourable economic conditions, such as the 2007-2008 global economic downturn, uncertainties in financial markets over the decision by the United Kingdom to exit the European Union, the trade war between the PRC and the U.S., and the PRC’s economic slowdown, may lead to a drop in business activities, reduce consumer spending in major countries. Such events may directly, or indirectly through their negative

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impact on the present and future economic conditions, affect demand of our products from customers in some or all of the downstream industries, and adversely affect our business, results of operations and financial conditions, and we may not be able to grow at the pace we anticipated or at all. There can be no assurance that the demand of semiconductor and pharmaceutical manufacturers and research institutes for cleanroom products and services will sustain or continue to grow in the PRC, Malaysia and globally. If there is any decrease in the demand of semiconductor and pharmaceutical products, our sales may decline and our results of operations, financial condition and business prospects may be materially and adversely affected.

Any global economic downturn, or regional economic downturn, such as one that may be caused by the trade war between the PRC and the U.S., may adversely affect our customers, suppliers and subcontractors in obtaining finance and credit for purchases, working capital and capital commitments for their businesses. This may result in a decline of or cancellation of orders for our products or the inability to supply us with raw materials due to production limitations. Furthermore, uncertain market and macroeconomic conditions may cause difficulties for our customers to prepare forecasts of their future purchasing plans accurately, which may also adversely affect our production scheduling and planning. In this regard, if the market in which we operate experience a downturn due to global economic factors, our business, results of operations and financial conditions may be materially and adversely affected.

Our operations are subject to the laws and regulations of various jurisdictions and we may be unable to obtain, retain or renew required permits, licenses, registrations or certificates for our business operations.

Headquartered in Malaysia, we were operating through seven subsidiaries and mainly sell our products in the PRC, Malaysia, Philippines and Singapore during the Track Record Period. Our operations are subject to environmental protection, labour, safety and health laws and regulations in the jurisdictions where we have operations. We are required to maintain certain qualifications, licences and registrations to conduct our manufacturing business, which are detailed in the section “Business — Legal and Compliance Matters — Licenses and Permits”. In addition, for the sale or export of our products to, or the use of our products in certain countries, we may be subject to certain import and product quality regulations. See “Regulatory Overview” for details.

Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. Non-compliance with the relevant regulations may result in us being ordered to suspend or cease production, subject us to penalty and confiscation of the income derived from such manufacturing activity. Given the number and complexity of these regulations, compliance with them may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems.

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These regulations are constantly evolving. Any change or amendment to these laws, regulations or government policies may require us to incur substantial financial or other resources to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment and update our compliance and monitoring systems in order to ensure compliance, which may have a negative impact on our results of operations and financial condition. There can be no assurance that the relevant jurisdictions will not impose additional or more stringent laws or regulations, the compliance with which may cause us to incur significant costs which we may be unable to pass on to our customers and may take significant time which may affect or interrupt our operations.

To maintain such qualifications, licences or registrations, we must comply with the requirements imposed by the relevant government departments. We cannot assure you that we will be able to renew any other existing approvals, permits, licenses, registrations or certificates when they expire or that we will be able successfully to obtain, retain or renew future permits, licenses, registrations or certificates in a timely manner, or at all. Furthermore, we cannot assure you that such permits, licenses, registrations or certificates will not be revoked for whatever reason by the relevant authorities in the future. Failure to obtain or renew such permits, licenses, registrations and certificates as planned or revocation of any of them may result in delays in the sales and manufacturing of our products, which may materially and adversely affect our business, results of operations and financial condition.

We face competition amid the cleanroom industry.

The market in which we operate our business is competitive. There is pressure to allocate capital on R&D to develop products that can be differentiated to stay competitive among market players. Our competitors may also have even longer track records, wider product ranges or provide better after-sales support services. They may also have superior technical expertise for design and assembly processes or may operate on lower cost structures. There is no assurance that we will be able to compete successfully against our competitors in the future. Our failure to remain competitive may adversely affect our revenue and profitability.

As we focus on producing and selling our products at competitive costs and pricing, certain of our competitors may be able to offer similar products at cheaper prices and we may lose certain customers as a result. In order to compete effectively and maintain our sales levels, we may be forced to, amongst other possible actions, to reduce our prices, offer bulk purchase discounts or provide other sales incentives to our customers. Should we be required to take such action, our business, profit margins, results of operations and prospects may be materially and adversely affected.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could affect our business.

A part of our assets and operations are located in the PRC. For FY2017, FY2018, FY2019 and 3M2020, our revenue generated from contracts in the PRC accounted for 40.6%, 54.1%, 53.8% and 39.1% of our total revenue respectively. As a result, our business, financial condition, results of operations and prospects may be affected by the economic, political and social conditions as well as government policies in the PRC.

While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy for more than four decades, a substantial part of the PRC economy is still being operated under various controls by the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may materially and adversely impact our business, financial condition, results of operations and prospects.

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protections available to us in respect of our operations and to our Shareholders.

The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since the late 1970s, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. The PRC may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated laws and regulations.

In addition, the PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces and may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly for local applications, may be enacted without sufficient prior notice or announcement to the public. Accordingly, we may not be aware of the existence of new legislation or regulations. There is at present also no integrated system in the PRC from which information can be obtained in respect of legal actions, arbitrations or administrative actions. Even if an individual court-by-court search were performed, each court may refuse to make the documentation which it holds for on-going cases available for inspection.

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The PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of a violation of these policies and rules until sometime after the violation. Failure to comply with applicable rules and regulations may result in fines, restrictions on our activities or, in extreme cases, suspension or revocation of our business licences. There may be uncertainties regarding the interpretation and application of new laws, rules and regulations.

The interpretation and enforcement of certain PRC laws which govern a portion of our operations involve uncertainties, which could limit the legal protections available to us. In particular, agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for us to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding and payment of dividends from our PRC subsidiaries are subject to restrictions under PRC laws and PRC withholding tax.

PRC laws require dividends to be paid out of retained profits calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC withholding tax.

Our Company is a holding company registered in the Cayman Islands and a substantial part of our business and operations are conducted through our PRC subsidiaries. The availability of funds to pay distributions to Shareholders depends on dividends received from these subsidiaries. If our PRC subsidiaries incur any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that our PRC subsidiaries can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

The PRC government's control over the conversion of foreign exchange and fluctuations in the value of RMB may affect our results of operations, financial condition and ability to pay dividends.

A part of our operations are conducted in the PRC and part of our revenue is denominated in RMB. The value of RMB against the USD and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in the political and economic conditions in the PRC as well as internationally and the fiscal and foreign exchange policies prescribed by the PRC government. There is no assurance that the value of RMB will remain at the current level against USD, RM, SGD or any other foreign currency. Should RMB appreciate or depreciate against USD, RM, SGD or any other foreign currency, it will have mixed effects on our business and there is no assurance that the overall effect will be positive.

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RMB is not currently a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Pursuant to the existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payment) without submitting the relevant documentary evidence of such transactions to the SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes may require the prior approval or registration with the SAFE. If we fail to obtain the SAFE's approval to convert RMB into foreign currencies for foreign exchange transactions or there are changes in the foreign exchange regulations or policies, our capital expenditure plans, business operations, results of operations, financial condition and our ability to pay dividends could be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

In utilising the proceeds from the Global Offering or any further offering, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be approved or recorded by the Ministry of Commerce* of the PRC (中華人民共和國商務部) or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may be treated as a resident enterprise for PRC tax purposes and be subject to PRC taxation on our worldwide income, which could result in unfavourable tax consequences to us and our non-PRC Shareholders.

Our Company is registered under the laws of the Cayman Islands but a portion of our operations are in the PRC. Under the EIT Law, an enterprise incorporated in a foreign country or region may be classified as either a “non-resident enterprise” or a “resident enterprise”. If an enterprise incorporated in a foreign country or region has its “de facto management bodies” located within the PRC, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. See the section “Regulatory Overview — Laws and Regulations of the PRC — J. Legal supervision over the Chinese Tax — 1. Enterprise Income Tax (“EIT”)” for details.

It is unclear how the PRC tax authorities will determine whether an offshore entity is a non-PRC resident enterprise. We cannot assure you that PRC tax authorities will not consider us to be a “resident enterprise”. If the PRC tax authorities subsequently determine that we or our offshore holding companies are deemed to be or should be classified as “resident enterprises”,

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such entity or entities may be subject to enterprise income tax at a rate of 25% on their worldwide income, which could have an impact on our effective tax rate and materially and adversely affect our financial condition and results of operations.

In addition, under the EIT Law, to the extent dividends from earnings derived since 1 January 2008 are sourced within the PRC and if we were considered a “resident enterprise” in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) may be required to be withheld from dividends on our Shares payable by us to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realized on the transfer of our Shares by such “non-resident enterprise” investors would be subject to PRC income tax at a rate of 10% if such gains were deemed income derived from sources within the PRC and if we were considered a “resident enterprise” in the PRC. It is unclear whether, if we are considered a PRC “resident enterprise”, holders of our Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our Shares which are “non-resident enterprises”, or if our Shareholders are required to pay PRC income tax on the transfer of our Shares under PRC tax laws, the value of an investment in our Shares may be materially and adversely affected.

There are uncertainties with respect to indirect transfers of assets (including equity interests) of our PRC subsidiaries.

In February 2015, the SAT issued the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises* (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) or Circular 7, which abolished certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises* (《關於加強非中國居民企業股權轉讓所得企業所得稅管理的通知》), or Circular 698, which was previously issued by the SAT in December 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provides comprehensive guidelines relating to, and also heightens the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”).

Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions, it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares on a public market by our non-resident enterprise Shareholders or to any future acquisition by us outside of the PRC involving PRC Taxable Assets. See the section “Regulatory Overview — Laws and Regulations of the PRC — J. Legal supervision over the Chinese tax — 1. Enterprise Income Tax (“EIT”)” for details. As a result, the

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PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards or bring original actions in the PRC against us or our Directors and senior management.

Our Company is registered under the laws of the Cayman Islands, but a portion of our operations and assets and some of our Directors and senior management are stabilised in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. On 18 January 2019, the Supreme People's Court and the Department of Justice of Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region" (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) ("**Arrangement**"). The Arrangement provides for the scope and mechanism regarding the reciprocal recognition and enforcement of judgments in civil and commercial matters between the PRC and Hong Kong. It covers both monetary and non-monetary relief, as well as rulings rendered for some intellectual property lawsuits. However, for judgment that provides for punitive or exemplary damages, the punitive or exemplary part of the damages would not be recognised and enforced, except where the judgment is rendered in respect of the claims specified in the Arrangement. The Arrangement will only take effect after necessary procedures to enable implementation have been completed and will apply to judgments made on or after its commencement date. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

Furthermore, an original action may be brought in the PRC courts against us or our Directors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

RISK FACTORS

RISKS RELATING TO CONDUCTING BUSINESS IN MALAYSIA

Any changes in Malaysia's economic, political and social conditions, as well as any changes in government policies, could materially and adversely affect our business, results of operations, financial condition and future prospects.

A substantial part of our assets and business operations are located in Malaysia, which will continue in the foreseeable future. For FY2017, FY2018, FY2019 and 3M2020, our revenue generated from contracts in Malaysia accounted for 25.6%, 22.0%, 25.0% and 11.5% of our total revenue respectively. Therefore, our business, results of operations, financial condition and future prospects are significantly exposed to the economic, political and legal developments in Malaysia. Our operations will be subject to the risks of economic deterioration, financial crisis, regional conflicts, terrorism, extremism, nationalism, changes in interest rates, imposition of capital controls, changes in government policies or introduction of new rules or regulations concerning cleanroom, semiconductor or pharmaceutical industries, and methods of taxation in Malaysia. Such factors could make it difficult for our customers, our suppliers and us to accurately plan future business activities, which could in turn adversely impact our revenue.

We cannot assure that the Malaysian government will continue to maintain the current economic policies or pursue economic and political reforms, especially in view of the recent change in government in Malaysia in March 2020. We note that a lot of policies, officials' positions, political structures and administrative practices have since been under review and may be subject to significant changes. Our business and operating results could be materially and adversely affected by any such changes.

Any negative developments in the Malaysian economy may have a material adverse effect on our business operations. Although the overall Malaysian economic environment (in which our Group predominantly operates) appears to be positive, there can be no assurance that this will continue to prevail in the future.

Furthermore, the production of our cleanroom products involves using raw materials such as aluminium, which affects the environment in the neighbourhood of our production facilities, and the Malaysian government may tighten regulations governing our industry to meet more stringent environmental requirements. It may expand the scope of existing regulations, tighten the rules governing the licence renewal process or even impose requirements to install certain equipment; these new measures may limit our Group's flexibility to operate and may increase our Group's costs of operations. Our Group's failure to comply with such laws and regulations could also result in reprimands, penalties, fines and legal proceedings against us.

Change in foreign workers policies may adversely affect our business, results of operations and financial condition.

As at Latest Practicable Date, part of our labour force in Malaysia are foreign workers. Any shortage in the supply of foreign workers or restriction on the number of foreign workers that we can employ, will adversely affect our operations in Malaysia. The supply of foreign workers is subject to the policies decided by the Malaysian Government. Any future changes to the foreign workers employment policies in Malaysia may adversely affect our ability to employ foreign workers. Under such event, if we are unable to find suitable replacements, our production activities and hence, our revenue and profits would be adversely affected.

RISK FACTORS

The Malaysian government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

Our Company is a holding company incorporated under the laws of the Cayman Islands, with limited liability. A major part of business operations of our Group are conducted through our subsidiaries incorporated in Malaysia. Our ability to pay dividends to our Shareholders is dependent upon the earnings of our subsidiary and distribution of funds to our Group, primarily in the form of dividends.

There are foreign exchange policies in Malaysia which support the monitoring of capital flows into and out of the country in order to preserve its financial and economic stability. The foreign exchange policies are administered according to the Foreign Exchange Administration Rules as promulgated by the Central Bank of Malaysia. The foreign exchange policies apply to both residents and non-residents. Under the current Foreign Exchange Administration Rules issued by the Central Bank of Malaysia, non-residents are free, at any time, to repatriate any amount of investment proceeds, including capital, divestment proceeds, profits, dividends, or any income arising from investments in Malaysia, subject to the applicable reporting requirements and any withholding tax, provided that repatriation of funds must be made in a foreign currency.

However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue to be in effect in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to follow the foreign exchange regulations as required by Central Bank or under Malaysian law for any of the above purposes, our capital expenditure plans, and even our business and financial condition and operating results, could be materially and adversely affected.

Some of our principal operating subsidiaries are incorporated in Malaysia and a substantial portion of our assets are located in Malaysia. It could be difficult to enforce a foreign judgment against our Malaysian subsidiary, our Directors or our executive officers.

Some of our operating subsidiaries are incorporated under the laws of Malaysia. The majority of our Directors and members of management are residents of Malaysia and a substantial portion of the assets and the assets of our Directors and management are located in Malaysia. Enforceability of certain foreign judgment in Malaysia is by virtue of the Reciprocal Enforcement of Judgments Act 1958, in which a foreign judgment must be registered before it can be enforceable. The registration of such foreign judgments is only possible if the judgment is given by a superior court from a country listed in the First Schedule of the Reciprocal Enforcement of Judgment Act 1958, which includes United Kingdom, Hong Kong, Singapore, New Zealand, Republic of Sri Lanka, India and Brunei Darussalam. In the event the foreign judgment is not from a country listed in the First Schedule of the Reciprocal Enforcement of Judgements Act 1958, the only method of enforcement at common law is by securing a Malaysian judgment. As a result, it could be difficult to enforce a foreign judgment against our Malaysian subsidiaries, our Directors or the management in Malaysia.

RISK FACTORS

RM may be subject to foreign exchange controls imposed by the Malaysian government in the future or may be subject to exchange rate fluctuations.

The Central Bank of Malaysia has, in the past, intervened in the foreign exchange market to stabilise RM, and it pegged RM to USD in September 1998. On 21 July 2005, the Central Bank of Malaysia adopted a managed float system which benchmarked RM to a currency basket to ensure that RM remains close to its fair value. We cannot assure you that the Malaysian government will not impose more restrictive or additional foreign exchange controls. Any imposition, variation or removal of exchange controls may lead to increased exposure of the Malaysian economy to the potential risks and vulnerability of external developments in the international markets.

Furthermore, fluctuations in the value of RM against other currencies will create foreign currency translation gains or losses and any appreciation of RM would lower the cost and enhance the competitiveness of imported scrap ferrous metals, both of which could adversely affect our business, financial condition and results of operations. Any imposition, variation or removal of foreign exchange controls may adversely affect the value of our net assets, earnings or any declared dividends, translated or converted into USD or HKD. Consequently, this may adversely affect our ability to pay dividends or satisfy other foreign exchange requirements, in which case the value of your investment in the Shares may be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING

There is no existing public market for our Shares and their liquidity and market price may fluctuate.

Prior to the Global Offering, there has not been a public market for our Shares. We have applied for the listing of and dealing in our Shares on the Stock Exchange. However, even if approved, we cannot assure you that an active and liquid public trading market for our Shares will develop following the Global Offering, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the liquidity and market price of our Shares will not fluctuate.

The Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Joint Bookrunners on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Global Offering. Therefore, our Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares purchased in the Global Offering.

RISK FACTORS

As the Offer Price is higher than the net tangible book value per Share, our Shareholders will experience an immediate dilution in the book value of their Shares purchased in the Global Offering and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible assets value per Share immediately prior to the Global Offering. Therefore, our Shareholders will experience an immediate dilution in pro-forma net tangible assets value of HK\$0.17 per Share, based on the maximum Offer Price of HK\$0.40.

In order to expand our business, we may consider offering and issuing additional Shares in the future. Our Shareholders may experience further dilution in the net tangible assets book value per Share if we issue additional Shares at a price lower than the net tangible assets book value per Share at the time of their issue.

Since there will be (i) a gap of several days between the closing of application lists and the Price Determination Date; and (ii) a gap of several days between pricing and trading of the Offer Shares, holders of the Offer Shares are subject to the risk that the price of the Offer Shares could fall during the period before trading of the Offer Shares begins.

There will be (i) a gap of several days between the closing of application lists and the Price Determination Date; and (ii) a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the Offer Price. The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be a few business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in Shares during that period. The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, net profit and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other cleanroom product suppliers could cause the market price of our Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of Shares are subject to the risk that the price of their Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Our Controlling Shareholders, may exert substantial influence over our operation and may not act in the best interests of our public Shareholders.

Immediately following the Global Offering, our Controlling Shareholders will own approximately 54.2% of our issued share capital. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not

RISK FACTORS

always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders chooses to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Future sales or issuances or perceived sales or issuances of our Shares could have a material adverse effect on the prevailing market price of our Shares and our ability to raise additional capital.

The market price of our Shares could decline as a result of future sales or issuances of a substantial number of our Shares or other securities in the public market, or the perception that such sales or issuances may occur. Moreover, such future sales or issuances or perceived sales or issuances may also adversely affect the prevailing market price of our Shares and our ability to raise capital in the future at a favourable time and price.

There can be no assurance if and when we will pay dividends in the future.

We declared and paid dividends in the amount of RMB8.1 million, RMB25.4 million and RMB15.0 million during FY2018, FY2019 and July 2020 respectively. We did not declare or pay any dividends for FY2017 and 3M2020. Distribution of dividends shall be formulated by our Board and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under our Articles of Association and the Cayman Companies Law, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, relevant laws and regulations and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. See the section "Financial Information — Dividends" for details.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong.

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company's minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of Cayman Islands company law is set out in Appendix IV to this prospectus.

RISK FACTORS

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Global Offering.

There may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press, media, and/or research analyst coverage regarding us, our business, our industry and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the Shares, the Global Offering, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

We cannot guarantee the accuracy of certain facts and statistics contained in this prospectus.

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange to have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations are located in the PRC and Malaysia and will continue to be based in the PRC and Malaysia, our executive Directors and members of the senior management are and will continue to be based in the PRC and Malaysia. At present, none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) Pursuant to Rules 2.11 and 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives who will act as the principal channel of communication with the Stock Exchange. Our authorised representatives are Mr. Ng and Ms. Wong Pui Yin Peony, our company secretary. Mr. Ng confirmed that he has valid travel documents to travel to Hong Kong and Ms. Wong Pui Yin Peony ordinarily resides in Hong Kong. Our authorised representatives will be available to meet with the Stock Exchange on reasonable notice as and when required and will be readily available by telephone, email and facsimile to promptly address the Stock Exchange's enquiries. Their contact details (including mobile, residential and office phone numbers, facsimile numbers and email addresses) have also been provided to the Stock Exchange. We will inform the Stock Exchange in the event of any changes in the authorised representatives and/or their alternate(s);
- (b) Each of our authorised representatives is duly authorised to communicate on our Company's behalf with the Stock Exchange. Our authorised representatives will be able to contact the Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. Each of the Directors is in turn authorised to communicate on our Company's behalf with the Stock Exchange;
- (c) All of our Directors have provided their contact details including residential addresses, phone numbers, and email addresses to the Stock Exchange. For our Directors' contact details that were provided to the Stock Exchange, see the section "Directors and Parties Involved in the Global Offering". In the event that a Director expects to travel or is out of office, he/she will provide the phone number of the place of accommodation or offer means of communications to the authorised representatives;
- (d) All of our Directors (including independent non-executive Directors) possess valid travel documents that allow them to travel to Hong Kong to meet with the Stock Exchange within a reasonable period of time;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) Pursuant to Rule 3A.19 of the Listing Rules, we have appointed Ballas Capital Limited as the compliance adviser who will, in addition to the authorised representatives, act as an additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of the financial results for the first full financial year after the Listing. The compliance adviser will advise our Company on on-going compliance requirements on the Stock Exchange and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong and have full access at all times to the authorised representatives and Directors to ensure that it is in a position to provide prompt response to any queries or requests from the Stock Exchange. We will also inform the Stock Exchange promptly in respect of any change in the compliance adviser;
- (f) Meetings between our Directors and the Stock Exchange can be arranged through the authorised representatives and/or compliance adviser, or directly with our Directors upon reasonable notice; and
- (g) We will retain professional advisers (including legal advisers and accountants) to advise on the on-going compliance obligations on the Stock Exchange and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which will continue after the Listing and therefore constitute continuing connected transactions for our Company under the Listing Rules after Listing. We have applied to the Stock Exchange for, and obtained, waivers from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of certain continuing connected transactions as disclosed in “Continuing Connected Transactions” of this prospectus. For further details see “Continuing Connected Transactions” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

THIS HONG KONG PUBLIC OFFERING AND THE PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering. See “How to apply for Hong Kong Offer Shares” and the Application Forms for details of the procedures for applying for the Hong Kong Offer Shares for further details.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

STRUCTURE OF THE GLOBAL OFFERING AND UNDERWRITING

See “Structure of the Global Offering” for further details of the structure of the Global Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us. The Global Offering is managed by the Joint Bookrunners. If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. See “Underwriting” for further details of the Underwriters and the underwriting arrangements.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, and is deemed by his acquisition of Hong Kong Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdictions or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Stock Exchange for the granting of the listing of and permission to deal in the Shares in issue and to be issued pursuant to the Global Offering and Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme. Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 8 October 2020.

None of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares on the Stock Exchange and we complying with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Hong Kong Public Offering will be registered on our register of members to be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No stamp duty is payable by applicants in the Global Offering. Our fully-paid Shares are freely transferrable.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RM and RMB amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of RMB into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK\$1.13 and the translation of RM into Hong Kong dollars and vice versa have been made at the rate of RM1.00 to HK\$1.89 in this prospectus.

No representation is made that any amount in RMB or Hong Kong dollars can be or could be, or have been, converted at the above rate or any other rate or at all.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

ROUNDING

Amounts and percentage figures, including share ownership, operating and financial data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in millions, amounts of less than one hundred thousand have been rounded to the nearest hundred thousand, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, total of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Ng Yew Sum	2A, Jalan PJU 1A/36 Ara Damansara 47301 Petaling Jaya Selangor, Malaysia	Malaysian
Mr. Law Eng Hock	A-15-06, Residensi KM1 Jalan Jalil Perkasa 1 Bukit Jalil 57000 Kuala Lumpur Malaysia	Malaysian
Mr. Lim Kai Seng	A-12B-B09, Armanee Terrace Condominium Wing B Lot No. 8, Jalan PJU 8/1 Damansara Perdana 47820 Mutiara Damansara Selangor, Malaysia	Malaysian
Mr. Chin Sze Kee	30, Jalan Tun Teja 35/12 Alam Impian 40470 Shah Alam, Selangor, Malaysia	Malaysian
Ms. Yap Chui Fan	81, Jalan SS18/1C, SS18 47500 Subang Jaya, Selangor, Malaysia	Malaysian
<i>Independent non-executive Directors</i>		
Mr. Ng Seng Leong	Flat A, 11/F Fulham Garden 84 Pok Fu Lam Road Hong Kong	Malaysian
Mr. Wu Chun Sing (鄺晉昇)	Flat D, 31/F, Tower 3, The Grandiose Tseung Kwan O, New Territories Hong Kong	Chinese
Mr. Martin Giles Manen	B-8-1, Stonor Park Jalan Stonor 50450 Kuala Lumpur WP Kuala Lumpur, Malaysia	Malaysian

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

See “Directors and Senior Management” for the qualifications and experience of our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Ballas Capital Limited

Unit 1802
18/F, 1 Duddell Street
Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

Sunfund Securities Limited

A corporation licensed to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
18/F, Hip Shing Hong Centre
55 Des Voeux Road Central
Central
Hong Kong

Zhongtai International Securities Limited

A corporation licensed to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
19/F Li Po Chun Chambers
189 Des Voeux Road Central
Central
Hong Kong

Mont Avenir Capital Limited

A corporation licensed to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Rm 3812-3813
38/F, COSCO Tower
183 Queen’s Road Central
Sheung Wan
Hong Kong

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INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the F&S Report which may qualify, contradict or have an adverse impact on the quality of information in the section. The information has not been independently verified by us, the Sole Sponsor or any of our or their respective directors, officers or representatives or any other person (other than Frost & Sullivan) involved in the Global Offering nor is any representation given as to its accuracy or completeness. Except as otherwise noted, all the data and forecast in this section are derived from the F&S Report.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting firm, to conduct an analysis of, and to prepare a report on, cleanroom facility market in China and Southeast Asia and other economic data for the period from 2015 to 2024. We have agreed to pay a fee of US\$150,000 for the F&S Report, which we believe reflects market rates for reports of this type. Frost & Sullivan is an independent global market research and consulting firm founded in 1961 and based in the United States. It offers industry research and market strategies and provides growth consulting and corporate training.

The F&S Report includes both historical and forecast information on the cleanroom facility market in China and Southeast Asia and other economic data. To prepare the F&S Report, Frost & Sullivan undertook both primary and secondary independent research through various resources within the cleanroom facility market in China and Southeast Asia. Primary research includes interviewing industry insiders, competitors, downstream customers and recognised third-party industry associations. Secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades. Frost & Sullivan has adopted the following primary assumptions while compiling and preparing the F&S Report: government policies on cleanroom facility market in China and Southeast Asia will remain unchanged during the forecast period. Frost & Sullivan has also obtained the figures for the estimated total market size from historical data analysis plotted against the macroeconomic data as well as the industry key drivers. Our Directors confirm that, after making reasonable enquiries, there have not been any material adverse changes to the market information set out in the F&S Report since the date of such report which may qualify, contradict or have an impact on the information contained in this section.

ANALYSIS OF GLOBAL CLEANROOM FACILITY MARKET

History of Cleanroom Facility

The first modern cleanroom facility globally can be dated back to 1960s and the cleanroom facility was introduced to the developing Asia including Malaysia back in around 1980s. Cleanroom shifted from US to Asia in 1990s due to the growth of semiconductor and microelectronics manufacturing industries in Asia. US companies such as Intel, Dell, Motorola, etc. established their manufacturing facilities in Asia during that period, which has driven the growth of cleanroom industry in Asia.

Definition and Classification of Cleanroom Facility

A cleanroom environment represents a controlled environment with minimal particulate contamination. In a cleanroom environment, specific temperature, humidity, room pressure and particle and dust count are achieved and maintained by the use of (i) specialised partitions being cleanroom walls, ceilings and flooring systems, and (ii) cleanroom equipment.

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Cleanroom wall, ceiling and flooring systems are designed to isolate the cleanroom from particulate contamination outside the room and have significantly less/or minimal particulate emission as compared to ordinary partitions used in non-cleanroom environments. Honeycomb panel wall and ceiling systems are used for high-end cleanroom for containment control of dust count cleanliness, control of room temperature, humidity and room air pressurisation in the manufacturing area; in compliance with international cleanroom standard classification such as FED-STD-209E and GMP standards.

Major cleanroom equipment includes (i) a fan filter unit (FFU); (ii) air shower; and (iii) a pass box. FFUs together form a special logic control fan system that purify the air inside a cleanroom. Air showers are designed to blow and flush an object clean before it enters into the cleanroom through a high pressure and high volume of air. Pass box is designed to transfer product between a cleanroom and a non-cleanroom environment through an interlock mechanism. They are all equipments designed to avoid contamination and disruption to the live cleanroom facility.

Approximately 86% of the cleanroom facility cost is attributed to cleanroom equipment as the unit product price of cleanroom equipment is much higher compared to cleanroom walls and ceilings.

In order to determine the cleanliness of a cleanroom, the concentration of various airborne particulate count inside the cleanroom is measured and the cleanroom will then be classified according to two sets of internationally-adopted standards, which are (i) the Federal Standard, also known as the General Service Administration's standards (FED-STD-209E); and (ii) the International Standards Organisation (ISO14644-1).

Even though the U.S. General Services Administration announced on 29 November 2001 that the FED-STD-209E was cancelled and superseded by ISO14644-1, it remains commonly used in the cleanroom industry due to (i) its long history of being in use, the cleanroom industry players are still accustomed to using this standard; and (ii) ISO standard 4 to 9 is comparable to FED-STD-209E Class 10 to Class 1,000,000 and thus the two standards are easily interchangeable in practice.

As shown in the table below, the ISO14644-1 classification system has two stricter standards and one looser standard as compared to that of FED-STD-209E. The lower the concentration of airborne particulate count is, the cleaner the cleanroom is, and it will be classified by a lower numbered class under both standards. A Class 1 cleanroom (equivalent to ISO3) is by definition cleaner than a Class 100 cleanroom (equivalent to ISO5) and is therefore suited for more purposes but is more expensive to build and maintain.

ISO 146-44-1 Cleanroom Standards

Class	maximum particles/m ³						FED-STD-209E equivalent
	>= 0.1 µm	>= 0.2 µm	>= 0.3 µm	>= 0.5 µm	>= 1 µm	>= 5 µm	
ISO 1	10	2					
ISO 2	100	24	10	4			
ISO 3	1,000	237	102	35	8		
ISO 4	10,000	2,370	1,020	352	83		Class 10
ISO 5	100,000	23,700	10,200	3,520	832	29	Class 100
ISO 6	1,000,000	237,000	102,000	35,200	8,320	293	Class 1,000
ISO 7				352,000	83,200	2,930	Class 10,000
ISO 8				3,520,000	832,000	29,300	Class 100,000
ISO 9				35,200,000	8,320,000	293,000	Class 1,000,000

In addition to the aforesaid standards, for materials used in cleanrooms for the pharmaceutical, hospitals and healthcare, and food and beverage industry, compliance to the Good Manufacturing Practice (GMP) is also required to ensure that the products manufactured inside these cleanrooms are safe for human consumption or use. Compliance to GMP is not required for the semiconductor and electronics industry.

Description of Major Downstream Application

The key end user industries of cleanroom are semiconductor, electronics, pharmaceutical, hospitals and healthcare, and others, of which the key drivers of cleanroom facility market are semiconductor industry and pharmaceutical and healthcare industry.

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For semiconductor and electronics sectors, specific product manufacturing whereby a dust free and temperature/humidity environment is a must due to technology advancement and improving trend of technology in manufacturing to increase production yield.

For pharmaceutical, life sciences, hospital and health care products and food industries grade of cleanroom, specific product manufacturing or facilities require the control of clean environment, bacterial and fungal free environment, control and prevention of outflow of contaminated manufacturing products.

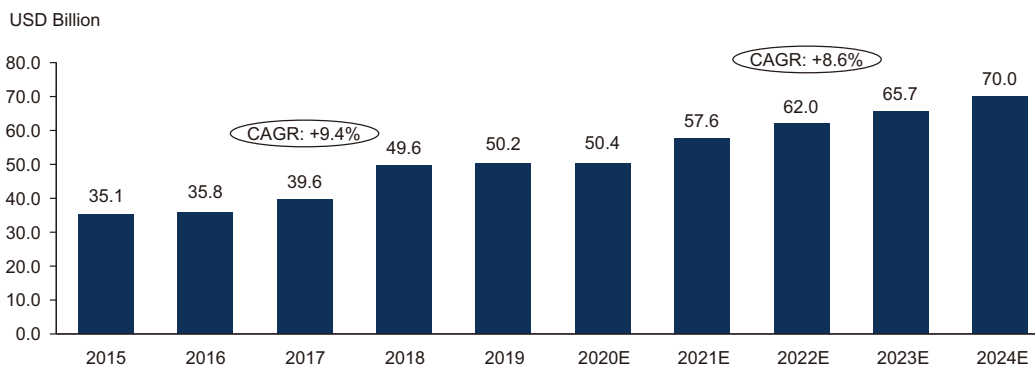
Downstream Industries of Industries

Downstream Industries	Description
Semiconductor	Wafer fabrication, IC packaging and testing facilities
Electronics	Electronic manufacturing facilities, LED flat panel displays
Pharmaceutical	Production of generic drugs to serve government and private hospitals, production facilities for compounding products
Hospitals & healthcare	Clean zone in hospitals and healthcare facilities, surgery rooms, intensive care units, CDR and non-CDR units
Others	Life-sciences laboratories, food & beverage, aerospace, data centre, etc.

Market Size of Global Cleanroom Facility Market

The global cleanroom facility market increased from USD35.1 billion in 2015 to USD50.2 billion in 2019, with a CAGR of 9.4%. Due to the overall negative impact of COVID-19, the growth of the market is expected to slow down in 2020. From 2020 to 2024, the market is anticipated to further grow to USD70.0 billion with a CAGR of 8.6%. In terms of the development of regional markets, Asian market, especially China, significantly contributed to the market growth during the last few years. In terms of the market segments by end-users types, semiconductor sector is one of the main drivers for the market growth and the market share of semiconductor manufacturing is expected to rise further in future.

Market Size of Cleanroom Facility Market, Global, 2015-2024E



Source: Frost & Sullivan

Market Drivers of Global Cleanroom Facility Market

Increasing investment in high-tech manufacturing industry. The demand of cleanroom engineering mainly derives from the construction activities of plants and new production lines of manufacturing industry. Therefore, the increasingly growing investment worldwide in these industries fuels the market growth of the cleanroom. Take the semiconductor manufacturing industry for example, the global investment in facilities of wafer fabrication plant reached the record level in 2017, which was USD57 billion, and the global investment in wafer fabrication plant is expected to increase continuously in the next few years. At the same time, global investment in the other high-tech areas, such as biomedicine and aerospace, has also increased substantially, which also promoted the demand for the global cleanroom market.

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Stricter production requirement in high-tech manufacturing area. The high-tech manufacturing, especially electronic products manufacturing, is requiring higher standard on the production environment. Working as a key production factor, the higher standard on cleanliness in the process of manufacturing benefits the demand for the high-end cleanroom market segment. For instance, the technology of integrated circuits manufacturing keeps developing globally, which correspondingly put higher standard on the cleanliness level of the production environment. Similarly, the requirement on controlling the number of bacteria and the microorganism in the production environment is higher in the pharmaceutical manufacturing field. Therefore, more stringent production condition shall drive the expansion of global high-end cleanroom market.

More extensive application scenarios. The application scenarios of cleanroom are expanding over these years. Recently, the cleanrooms have been applied in the construction of blood stations and animal laboratory, as well as the cosmetics manufacturing and data centre. The extensive use of the cleanroom technology shall become an important factor to drive the cleanroom market.

ANALYSIS OF CLEANROOM FACILITY MARKET IN CHINA

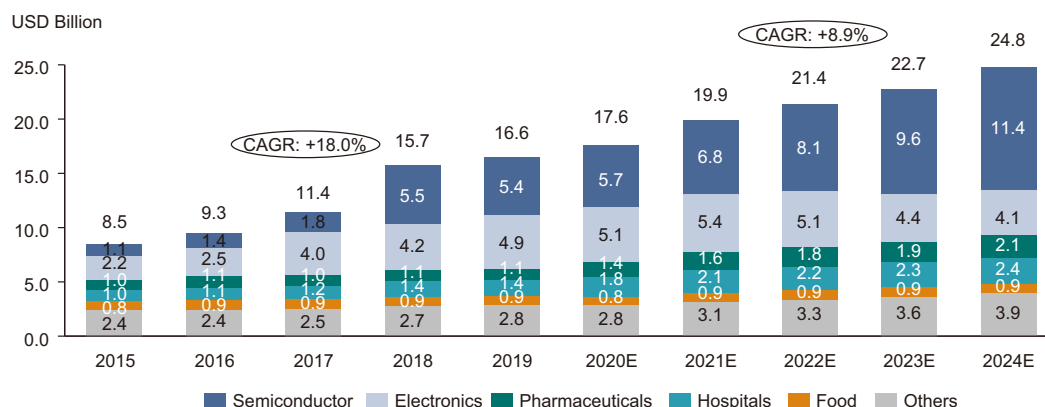
Market Size of Cleanroom Facility Market in China

The cleanroom facility market in China experienced a rapid growth during last few years, which increased from USD8.5 billion in 2015 to USD16.6 billion in 2019, with a CAGR of 18.0%. During the period, almost all the major market segments experienced an expansion, with semiconductor and display device segments contributing the largest portion of the total market growth. However, in 2019, the semiconductor segment went through a minor decrease of 1.8%, mainly due to the cyclical fluctuation in its investment value.

In 2020, it is expected that the semiconductor segment will experience a cyclical expansion. However, due to the impact of COVID-19, its growth rate is expected to be largely impacted. Furthermore, although demands from the hospital and pharmaceutical industries will increase driven by the COVID-19 situation, the semiconductor and electronic segments account for a larger combined proportion than the hospital and pharmaceutical segments of the cleanroom industry, and thus the overall impact of COVID-19 on Chinese cleanroom facility market is expected to be negative. Therefore, the growth of overall market size is expected to slow down in China in 2020.

From 2020 to 2024, the market is anticipated to increase from USD17.6 billion to USD24.8 billion with a CAGR of 8.9%. During the period, the market of semiconductors will constantly grow. The markets of pharmaceuticals and hospitals will continue their growth due to more attentions to public health from the government and public. By contrasts, the market of electronics is expected to experience a cyclical contraction.

Market Size of Cleanroom Facility Market, China, 2015-2024E

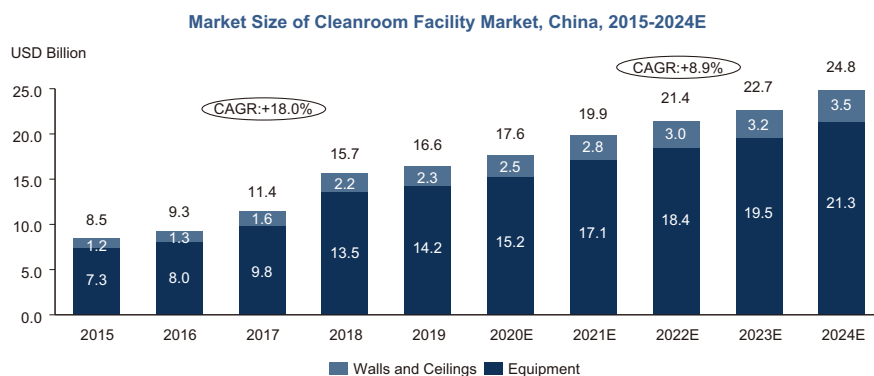


Source: Frost & Sullivan

Among the overall cleanroom market, cleanroom wall and ceiling represents around 14% of the market, which increased from USD1.2 billion in 2015 to USD2.3 billion in 2019, and is

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expected to rise to USD3.5 billion in 2024, while cleanroom equipment represents around 86% of the market, which increased from USD7.3 billion in 2015 to USD14.2 billion in 2019, and is expected to rise to USD21.3 billion in 2024.



Source: Frost & Sullivan

Market Drivers of Cleanroom Facility Market in China

Increasing investment in semiconductor, electronics and pharmaceutical industries. Evolving along with manufacturing industry upgrading, the industrial restructuring facilitates the development of innovative and high technologies, especially the electronics industry. Cleanroom facilities are irreplaceable in the electronics industry such as manufacturing of integrated circuits, semiconductors and display panels. The cleanroom facility market benefits from the manufacturing upgrade. In 2014, the national integrated circuit industry investment fund was established, after that, several local governments also established their own integrated circuit industry fund. Additionally, several world leading semiconductor manufacture companies such as TSMC, Samsung and SMIC have their own factories in China. SMIC is construing or planning to construct its new factories in China. Moreover, there were also several pharmaceutical projects that started in recent years. For example, Huahai Pharmaceutical invested RMB10 billion in 2017 to build a pharmaceutical industrial park in Zhejiang. With the expansion of investment in the electronic and pharmaceutical industries, there are more factories being constructed, as a result of the growing demand of cleanroom.

Favourable regulation. In recent years, the Chinese government released a series of regulation and production standards regarding major downstream industries such as the pharmaceutical industry and food industry, which strengthened environment control in the production process and facilitated additional demand of cleanroom facilities. For instance, the national health commission released a 12th “5-year national standard for food safety plan”, aiming to control food pollution in the process of production. These regulations stimulated the reconstructed or extended and new demand of the existing cleanroom in these relevant industries.

Expansion of application. Under the development trend of refinement and complication in the manufacturing industry, more and more companies have strengthened the control of microparticles to improve the quality of products by eliminating dust and static electricity. From the production of electronic equipment or pharmacy to the large data centre, the expanding application encourages the demand for cleanroom facility.

Entry Barriers of Cleanroom Facility Market in China

Regulation compliance. Cleanroom facilities belong to the auxiliary project of high-end manufacturing industries which have relatively high requirements in the production environment. In order to ensure the quality of cleanrooms, the cleanroom facility companies need to comply with several regulations or standards such as ISO 9001 or the new version of GMP in China. It is normal for customers to require suppliers to comply with relevant regulations or standards during the bidding process, which will be a barrier to new entrants of this market.

Technology and talent. The cleanroom walls and ceilings need to follow a series of particular requirements. For example, equipment should be smooth and washable by ethanol or

INDUSTRY OVERVIEW

able to be fumigated by formaldehyde. Additionally, this equipment also needs to be demountable to satisfy the requirements in case of layout changes. Therefore the production of cleanroom equipment will need the support of certain technologies and experienced technicians, which is difficult to be obtained by new entrants.

Project experiences and customer resources. Usually, customers will require the facility service providers to have similar past project experiences. The existing players in the cleanroom facility market have already cumulated abundant experience and built up good cooperative relationships with their customers which is advantageous in obtaining new projects or take reconstruction works of their previous projects. Additionally, these relationships can also help with the reputation of existing players and enhance their market position. It is quite difficult for new entrants to establish reliable relationships with customers in a short time period. Moreover, good track records and no past failure are also important. Since the investment of the entire projects with cleanroom is usually huge, the failure of cleanroom will cause massive loss to the investor of the project.

Future Outlook and Opportunities of Cleanroom Facility Market in China

Increasing industry concentration. With the increasing supervision and regulation of downstream industries of the cleanroom facility market, the cleanliness requirements for the cleanrooms are becoming more stringent. Those companies who are unable to guarantee the quality of their products or services will be eliminated by the market. Therefore, as a result of evolution of downstream industries, those companies with higher technology level and service abilities will control more market share and increase industry concentration.

Changing of business model. With the development of cleanroom facility industry, the capable players in this industry begin to change from equipment providers or constructors to entire solution providers who provide service from cleanroom design to maintenance after the cleanroom facility is put into operation. This transformation can ensure the consistency of the cleanroom project and improve quality and efficiency. Additionally, facing the increasing cost pressure from labour and raw materials, solution providers can engage in more value-added service which will be helpful with revenue and the profit margin of the companies.

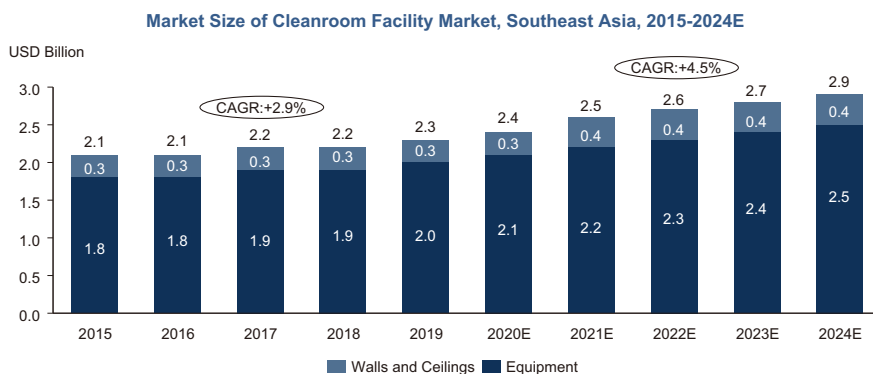
Expanding R&D investment. The technological progress of the downstream industries also promotes the development of the cleanroom facility market. For example, 7-nanometer particles will affect the manufacturing of an integrated circuit in the 14-nanometer process, and currently, the 5-nanometer process is under development, which will have a higher requirement on the cleanliness level. Furthermore, the cleanroom should be flexible enough to adapt to the technological upgrades of the downstream industries. As a result, cleanroom facility companies need to strengthen their R&D capability to satisfy the changing demand of the downstream industries.

ANALYSIS OF CLEANROOM FACILITY MARKET IN SOUTHEAST ASIA

MARKET SIZE OF CLEANROOM FACILITY MARKET IN SOUTHEAST ASIA

The cleanroom facility market in Southeast Asia increased from USD2.1 billion in 2015 to USD2.3 billion in 2019, with a CAGR of 2.9%. In 2020, the expected cyclical expansion in the semiconductor segment will be largely offset by the overall negative impact of COVID-19. Thus, the growth rate of market size is expected to be lower than that in the situation without COVID-19. From 2020 to 2024, the market is expected to further grow to USD2.9 billion with a CAGR of 4.5%. In terms of the walls and ceilings market segment, its market size increased to USD0.3 billion in 2019, and is expected to further grow to USD0.4 billion in 2024. The cleanroom equipment market experienced a growth as well in Southeast Asia. The market size increased from USD1.8 billion in 2015 to USD2.0 billion in 2019, and is expected to reach USD2.5 billion in 2024.

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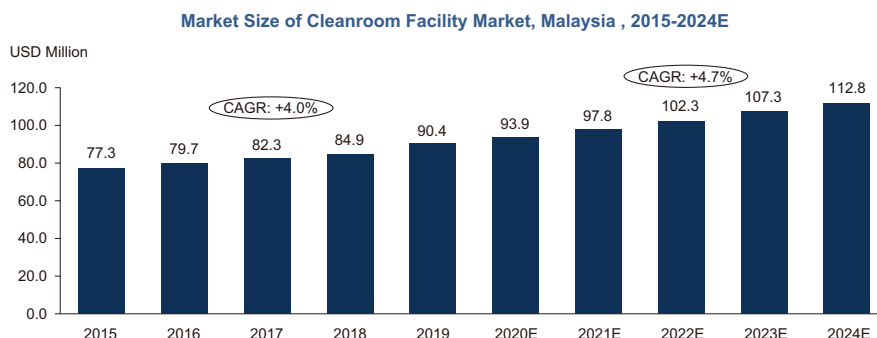


Source: Frost & Sullivan

Market Size of Cleanroom Facility Market in Malaysia

The market size of Malaysian cleanroom facility market was estimated at USD90.4 million in 2019. The market is expected to continue to grow but at a slower rate from 2019 to 2020 due to the impact of COVID-19.

COVID-19 is expected to have relatively limited long-term impact on the market, and therefore the CAGR of 2020 to 2024 is expected to reach 4.7% mainly driven by the growth of pharmaceuticals, hospitals, medical devices industries as well as the growth of semiconductor fabrication and packaging & assembly industries.



Source: Frost & Sullivan

Market Drivers of Cleanroom Facility Market in Southeast Asia

Development of major downstream industries. As essential auxiliary facilities of downstream manufacturing industries such as semiconductors and pharmaceuticals, the demand for cleanroom mainly originates from the construction of new plants and production lines. With the economic growth of Southeast Asia countries, the demand for electronic products is increasing rapidly, which leads to the development of local semiconductor industry and therefore the increasing demand for cleanroom facility. Additionally, with the improvement of individual wealth in Southeast Asia, consumers start to pay more attention to personal health, which makes Southeast Asia the next emerging market for medical and pharmaceutical industries, driving the demand of cleanroom.

Relatively low labour cost. The relatively high proportion of labouring population results in relatively low labour cost in Southeast Asia countries, which attracts the international enterprises to invest and construct factories in the area. For example, Malaysia is one of the major OSAT (Outsourced Semiconductor Assembly and Test) centres and one of the most important semiconductor exporters in the world. Moreover, Vietnam is also one of the important exporters of electronic products.

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More and more friendly environment for foreign investment. To attract foreign investment, Southeast Asia countries government have been issuing favourable policies such as tax subsidy to encourage foreign companies to invest and build manufacturing facilities. Many foreign cleanroom downstream industry companies are investing and start operations in Southeast Asia countries and therefore will drive the local cleanroom facility market to grow.

There is no import/export constraints/high duties in Southeast Asia countries that would restraint the shipment of cleanroom products across Southeast Asia countries.

Entry Barriers of Cleanroom Facility Market in Southeast Asia

Industry experience and track records. The previous experience and track records are essential to cleanroom products supplier companies. Although the cleanroom only accounts for a small fraction of the total investment of a project with cleanroom facility such as a fabrication plant which takes billions of dollars, the cleanroom facility is vital to whether the project can be completed successfully and put into production. As a result, customers will pay attention to the industry experience and track records of cleanroom products supplier companies, meanwhile, a new entrant without reliable industry experience and track records may be difficult to convince customers.

Technology and innovation. With the rapid development of downstream enterprises in the Southeast Asia, the demands on the cleanroom facility are changing and tend to be more personalised and complicated, which requires cleanroom products suppliers to have stronger innovation capabilities and keen market perception. Additionally, the technology and innovation level can help the cleanroom products suppliers to avoid the price competition caused by the homogeneous products. Therefore, unless a new entrant can allocate enough capital on R&D to come out with innovative products that are more sensitive towards the need of different end-user industries, it is difficult to compete with existing key players.

Customer resources. Customer resource is another key factor in a successful business in the cleanroom facility market. Existing players usually have a long-term relationship with the customers such as project contractors, on the other hand, the customers are usually tending to purchase the cleanroom products from the same cleanroom products supplier they have worked with before due to the competitive pricing and the quality guarantee of the products. As a result, a new entrant of the cleanroom facility market needs to put much more effort to accumulate their own customer resources.

Future Outlook and Opportunities of Cleanroom Facility Market in Southeast Asia

Increasing requirements on cleanroom facilities. As one of the major drivers, the semiconductor industry takes an important position in the demand for the cleanroom facility. However, with the advancement of technologies in the semiconductor industry, the production process of semiconductors may have a higher requirement on the cleanliness of the cleanroom. Additionally, those cleanroom facilities which can provide the customer with great flexibility such as dismountable and size adjustable products may also be welcomed. As a result, the cleanroom facility which can satisfy the increasing requirements from the downstream industries will be the trend in the future.

Increasing demands from the medical and healthcare industry. With the economic growth in Southeast Asia, the government gradually pay more attention to the medical and healthcare industry. According to the Ministry of Health of Malaysia, the temperature of a cleanroom in hospitals aseptic zones should be not more than 22 degrees Celsius, and the relative humidity should be 55±5%. Therefore, the hospital with cleanrooms below the standard may need to consider replacing or upgrading the cleanroom which will bring new demand for the cleanroom industry. Moreover, the average costs of healthcare in Indonesia have also multiplied in the past decade and the medical tourism is an emerging market in Thailand, which will also increase the demand for cleanroom from medical and healthcare industry.

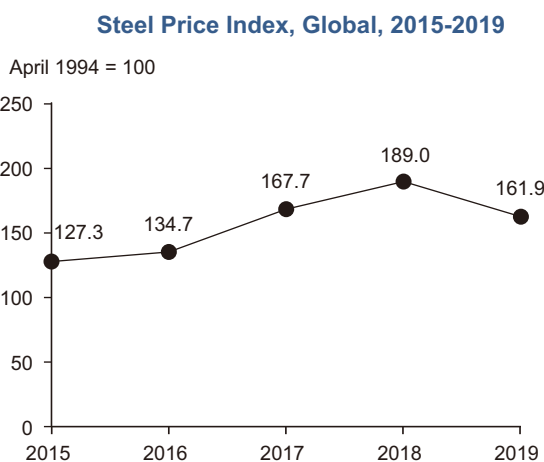
INDUSTRY OVERVIEW

Increasing demand from food and beverage industry. The food and beverage industry makes a significant contribution to the growth of the economy in Southeast Asia, thriving by local demand as well as through exported processed food. In 2017, the industry accounted for a significant part of the GDP in Indonesia. Similarly, the Malaysian Investment Development Authority stated that the food-processing sector accounted for about 10% of Malaysia's manufacturing output, which contributed USD5.2 billion in 2017. In order to ensure the food safety, the Malaysia Ministry of Health required the food-related enterprises must obtain either strict HACCP certification or GMP certification to operate to ensure that proper steps are taken to avoid food contamination. Additionally, in 2019, Thailand revised its food safety regulations and increased penalties for food production. The growth of the industry and the increasingly demanding standard will result in a higher requirement in the production environment, which stimulates the demand for cleanroom facility.

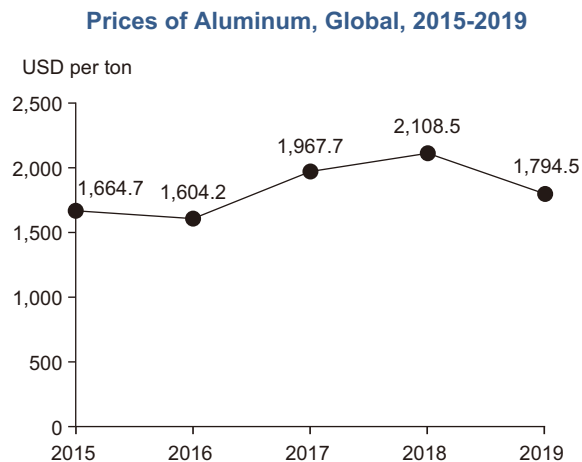
PRICE ANALYSIS OF CLEANROOM EQUIPMENT RAW MATERIAL

The global steel price index increased from 127.3 in 2015 to 189.0 in 2018, mainly driven by the growing global steel demand, as well as China's supply side restructuring to eliminate excess steel manufacturing capacity in 2016. However, mainly due to the US-China trade war, the global steel price index decreased to 161.9 in 2019.

Similarly, the global aluminum price experienced an overall growth between 2015 and 2018, but then went through a decline in 2019, mainly due to slowing demand in China, expectation of excess supply, and rising aluminum exports from China due to lower domestic demand.



Source: Frost & Sullivan



COMPETITIVE ANALYSIS OF CLEANROOM FACILITY MARKET

Competitive Landscape of Cleanroom Facility Market in Southeast Asia

The competitive landscape of cleanroom facility market is not concentrated in Southeast Asia on an overall level, and both foreign and local cleanroom facility suppliers are active in the market. Global players such as Exyte, Camfil and American Air Filter cover multiple markets in Southeast Asia with good track record and strong presence, and there are also many regional or local players such as the Company, Cleanroom Industries Sdn. Bhd., MayAir Group and Esco. Regarding the Southeast Asian cleanroom facility market in 2019, the Company took 0.6% of the total market size.

The top 5 cleanroom equipment suppliers hold 18.2% out of the total market size in Southeast Asia in 2019. Among the top 5 suppliers, 4 of them are foreign companies, only Esco is a Singapore based company. Local companies are found mostly in air ducts, grills and diffusers product segments, while the air filters and fan units segments were dominated by foreign companies.

INDUSTRY OVERVIEW

Market Share of Top 5 Cleanroom Equipment Suppliers (by Revenue), Southeast Asia, 2019

Rank	Company Name	Background	Revenue (USD Mn)	Market Share	Listing Status ⁽¹⁾
1	Camfil	The company is a manufacturer of air filter products. The company is headquartered in Sweden, with strong performance in Southeast Asia. The company has branches in Malaysia, Thailand, Indonesia, and Philippines.	135.7	6.8%	Private
2	American Air Filter	A leading producer of commercial, industrial and residential air filters globally, and provides a wide range of products including HVAC filters, HEPA filters, gas phase filtration, air pollution control, etc.	90.5	4.5%	Public* (6367.T)
3	Exyte	A global company focusing on the design, engineering and delivery of facilities for high-tech industries including cleanroom sector headquartered in Germany.	72.4	3.6%	Private
4	Ebm-papst	Headquartered in Germany, the company is one of the global leading suppliers of electric fans and motors. The company has offices cover the major Southeast Asian countries including Singapore (regional HQ), Thailand, Vietnam, Philippines, Indonesia and Malaysia.	36.2	1.8%	Private
5	Esco	Headquartered in Singapore, the company is one of the leading air showers manufacturers in Southeast Asian market. The company has offices cover major Southeast Asian countries including Indonesia, Malaysia, Vietnam, and Thailand.	30.2	1.5%	Private
Others			1,646.1	81.8%	
Total Market Size			2,011.1	100%	

* The parent company of American Air Filter, namely DAIKIN Industries Ltd, is listed on Tokyo Stock Exchange

Notes:

- (1) Listing status are as of the Latest Practicable Date.
- (2) There is no double counting of revenue of each of the top 5 cleanroom equipment suppliers and the total market size.

Source: Frost & Sullivan

There are around 20 cleanroom facility suppliers including product suppliers and system integrators in Malaysia. The top 5 suppliers hold 36.3% share out of the total market size and all of them are cleanroom product suppliers. The biggest suppliers is a foreign company with strong global presence. The Company ranked the second in terms of revenue in Malaysian cleanroom facility market in 2019 with a market share of 8.3%.

INDUSTRY OVERVIEW

Market Share of Top 5 Cleanroom Product Suppliers (by Revenue), Malaysia, 2019

Rank	Company Name	Background	Revenue (USD Mn)	Market Share	Listing Status ⁽¹⁾
1	Exyte	A global company focusing on the design, engineering and delivery of facilities for high-tech industries including cleanroom sector headquartered in Germany.	8.1	9.0%	Private
2	The Company	A cleanroom wall and ceiling systems and cleanroom equipment provider based in the PRC and Malaysia	7.5	8.3%	Private
3	American Air Filter	A leading producer of commercial, industrial and residential air filters globally, and provides a wide range of products including HVAC filters, HEPA filters, gas phase filtration, air pollution control, etc.	7.2	8.0%	Public* (6367.T)
4	Cleanroom Industries	Focusing on the design and manufacturing of a full range of cleanroom-related architectural products for cleanroom applications.	5.4	6.0%	Private
5	Camfil	The company is a manufacturer of air filter products. The company is headquartered in Sweden, with strong performance in Southeast Asia. The company has branches in Malaysia, Thailand, Indonesia, and Philippines.	4.5	5.0%	Private
Others			57.7	63.7%	
Total Market Size			90.4	100.0%	

* The parent company of American Air Filter, namely DAIKIN Industries Ltd, is listed on Tokyo Stock Exchange.

Notes:

- (1) Listing status are as of the Latest Practicable Date.
- (2) There is no double counting of revenue of each of the top 5 cleanroom product suppliers and the total market size.

Source: Frost & Sullivan

Competitive Landscape of Cleanroom Facility Market in China

The cleanroom walls and ceilings market is very diversified in China, mainly because various players in China typically focus on different downstream application industries. For example, there are suppliers mainly focusing on semiconductor industry, such as the Company, Chen Feng Metal Products and Topline. Some suppliers mainly focus on electronics segment, such as CEIET(A Tower) and Suzhou Yongsheng. While some other companies mainly focus on pharmaceutical industry, such as Syntex and Karsten Cleanroom Systems. At the same time, besides the large scale players, there are hundreds of small-mid scale suppliers in the market, which contributes to the low market concentration of the cleanroom walls and ceilings market in China as well. The top 10 players accounted for 18.5% of total market share in 2019. The Company ranked eighth in China in 2019 with relevant revenue of USD 16.1 million and market share of 1.1%. Given that various players in China typically focus on different downstream application industries, the Company has shown a relatively strong presence in the semiconductor segment market, which is a national strategic industry in China and thus demand for the product is expected to remain strong, combining with its good brand reputation, stable customer relationship, high-quality products, abundant experienced technical staff, over 15 years presence in China market and a good track record of global services, as well as the ability

INDUSTRY OVERVIEW

to produce nearly zero-outgassing cleanroom wall panels over competitors. Based on the above, it is expected to maintain its market presence and market share in the forecast period.

Market Share of Top 10 Cleanroom Walls & Ceilings Suppliers (by Revenue), China, 2019

Rank	Company Name	Background	Revenue (USD Mn)	Market Share	Listing Status ⁽¹⁾
1	MAX Cleanroom System	A leading cleanroom products supplier in China headquartered in Kunshan, Jiangsu, and has three production factories in China.	48.3	3.2%	Traded on NEEQ* (837982)
2	Linsen Purification	A leading cleanroom products supplier in China headquartered in Suzhou, Jiangsu, focusing on wall and ceiling panels.	45.5	3.0%	Private
3	Syntex	A leading cleanroom products supplier in China headquartered in Shanghai, and has a relatively strong presence in electronics and pharmaceutical sectors.	43.1	2.9%	Private
4	Chen Feng Metal Products	Focusing on the production of walls and ceilings of cleanroom within electronics, food and pharmaceutical sectors in China	34.8	2.3%	Private
5	Shandong Wiskind	Specializing in the production of steel building products and cold-rolled steel in China, which includes cleanroom walls and ceilings products.	22.0	1.5%	Traded on NEEQ* (830906)
6	Suzhou Yongsheng	Specializing in the production of fireproof materials and cleanroom walls and ceilings headquartered in Suzhou, Jiangsu.	20.3	1.4%	Private
7	CEIET (A Tower)	A comprehensive industrial and engineering products supplier headquartered in Wuxi, Jiangsu, and cleanroom walls and ceilings are one type of products supplied by the company.	18.8	1.3%	Private
8	The Company	A cleanroom wall and ceiling systems and cleanroom equipment provider based in the PRC and Malaysia	16.1	1.1%	Private
9	Topline	A cleanroom products supplier headquartered in Taiwan, and have two production factories in Taiwan and Shanghai	14.5	1.0%	Private
10	Karsten Cleanroom Systems	A foreign cleanroom products supplier headquartered in Netherlands.	11.6	0.7%	Private
Others			1,217.4	81.5%	
Total Market Size			1,492.4	100.0%	

* NEEQ is an OTC market

Note:

- (1) Listing status are as of the Latest Practicable Date.
- (2) There is no double counting of revenue of each of the top 10 cleanroom walls & ceilings suppliers and the total market size.

Source: Frost & Sullivan

The cleanroom equipment market is relatively scattered in China, and different cleanroom equipment suppliers have different strengths and focus areas. For FFU, foreign companies such as American Air Filter and MayAir Group have relatively strong presence in China's market. For air filters, domestic market players such as Futai Clean Tech Co., Ltd. and Chi Sheng Cleanness Technology Co., Ltd account for the majority of the Chinese market.

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Different cleanroom equipment suppliers in China usually provide different types of products and focus on various downstream industries including pharmaceutical, semiconductor, electronics, etc. Therefore, the cleanroom equipment market is relatively scattered in China with a great number of suppliers, and the top 5 players account for 2.9% market share in 2019. Global companies have a strong presence in Chinese market. MayAir ranked as the largest cleanroom equipment supplier in China in 2019 with USD 145.0 million associated revenue and 1.0% market share.

Market Share of Top 5 Cleanroom Equipment Suppliers (by Revenue), China, 2019

Rank	Company Name	Background	Revenue (USD Mn)	Market Share	Listing Status ⁽¹⁾
1	MayAir	MayAir is committed to providing air filter, chemical filter and ventilation system, FFU and high performance clean room products.	145.0	1.0%	Private
2	American Air Filter	AAF is a leading producer of commercial, industrial and residential air filters globally, and provides a wide range of products including HVAC filters, HEPA filters, gas phase filtration, air pollution control, etc.	87.0	0.6%	Public* (6367.T)
3	Shinsung Suzhou	Shinsung E&G is committed to providing purification equipment, air shower, FFU, clean and air conditioner products.	83.2	0.6%	Public** (011930.KRX)
4	Uairtech	Uairtech is focusing on the production of waste gas purification equipment, air filtration products, etc.	56.8	0.4%	Public*** (603601.SH)
5	Camfil	Camfil is one of the world-renowned manufacturers of air filtration equipment, headquartered in Sweden. The factory of Camfil in China is located in Kunshan, Jiangsu.	43.5	0.3%	Private
Others			13,819.7	97.1%	
Total Market Size			14,235.2	100%	

* The parent company of American Air Filter, namely DAIKIN Industries Ltd, is listed on Tokyo Stock Exchange.

** The parent company of Shinsung Suzhou, namely Shinsung E&G is listed on South Korea Stock Exchange.

*** The parent company of Uairtech, namely Zaisheng Technology is listed on Shanghai Stock Exchange.

Note:

(1) Listing status are as of the Latest Practicable Date.

(2) There is no double counting of revenue of each of the top 5 cleanroom equipment suppliers and the total market size.

Source: Frost & Sullivan

REGULATORY OVERVIEW

We are subject to various laws and regulations of Malaysia, the PRC, Philippines and Singapore that are material to our operations and/or financial performance.

LAWS AND REGULATIONS OF MALAYSIA

The following is an overview of (i) the major Malaysian government authorities that governs the business operations of our subsidiaries; and (ii) a summary of the main laws, regulations and policies of Malaysia that our subsidiaries are subject to.

A. LAWS AND REGULATIONS RELATING TO THE BUSINESS OF OUR SUBSIDIARIES IN MALAYSIA

The Malaysian subsidiaries shall be in compliance with the relevant laws and regulations of Malaysia. Some of the relevant and material Malaysian laws and regulations applicable to the establishment, operation and management our Malaysian subsidiaries are set out below:

I. The Industrial Coordination Act 1975

The Industrial Coordination Act 1975 (“ICA”) provides that any person engaging in manufacturing activity shall obtain a manufacturing license. Manufacturing activities are defined under the ICA to include “the making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade”. The ICA goes on to define product as “any article, thing, substance or service produced as a result of any manufacturing activity and includes a range of products”.

The ICA provides that the requirement of a manufacturing license shall only apply to companies with shareholders’ funds of RM2.5 million and above or with 75 or more full time paid employees. Should the company not meet the aforementioned threshold, the company shall be exempted from having to apply for a manufacturing license.

Any person who fails to comply with the requirement under the ICA shall be guilty of an offence and upon conviction shall be liable to a fine not exceeding RM2,000 or to a term of imprisonment not exceeding six months and to a further fine not exceeding RM1,000 a day for every day the non-compliance subsist.

The manufacturing license is issued by the Ministry of International Trade and Industry (“MITI”) and may be revoked under the discretion of MITI should the license holder be found to have (i) failed to comply with any condition imposed in the license; (ii) no longer engaged in the manufacturing activity in respect of which the manufacturing license is issued; or (iii) made a false statement in its application for the manufacturing license. A manufacturing license is permanent and does not have an expiration date and does not need to be renewed.

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II. Local Government Act 1976

Under the Local Government Act 1976 (“**LGA**”), it is provided that every local authority shall have the power to grant any license or permit for any trade, occupation or permit and such license shall be subject to such conditions and restrictions as the local authority may prescribe. It is further provided under the LGA that any person in contravention of any rules, regulations or by-laws under the LGA upon conviction shall be punishable by a fine not exceeding RM2,000 or by imprisonment of a term not exceeding one year or by both and in the case of a continuing offence, a sum not exceeding RM200 a day for every day the offence is continued after conviction.

Our subsidiaries carry on the business in Shah Alam, Malaysia and thus shall be subject to the Licensing of Trades, Businesses and Industries (Shah Alam City Council) By-Laws 2007 (“**Shah Alam By-Laws**”) which is promulgated under the LGA. The Shah Alam By-Laws governs the licenses related to the trading or businesses and industrial matters within Shah Alam municipality.

Section 3 of the Shah Alam By-Laws states that no person shall operate any activity of trade, business and industry or use any place or premise in the local area of the Shah Alam Local Council for any activity of trade, business and industry without a license issued by the Shah Alam Local Council.

Section 6 of the Shah Alam By-Laws provides that any license shall remain in force from the date of payment of the license fee up until 31 December of the current year unless otherwise cancelled or suspended before 31 December.

Section 47 of the Shah Alam By-Laws goes on to say that any person who does not comply with the provisions under the Shah Alam By-Laws shall be guilty of an offence and upon conviction shall be liable to a fine not exceeding RM200 or to imprisonment for a term not exceeding one year or both or where there is a continuing offence to a fine not exceeding RM200 for each day the offence continues after conviction.

III. Street, Drainage and Building Act 1974

The Street, Drainage and Building Act 1974 (“**SDBA**”) regulates the issuance of the certificate of compliance and completion (“**CCC**”) for buildings to ensure that a building is safe for occupation. The CCC is issued by professionals in the private sector namely architects, engineers and building draftsman of the project which is known as the principle submitting person. These professionals must be registered under the relevant laws which certifies them as professionals, for example the Architects Act 1967 or the Registration of Engineers Act 1967 (Revised 1974).

Section 127 of the SDBA states that should there be any non-compliance by any person of any provisions or by-laws under this Act, upon conviction, the said person shall be liable to a fine not exceeding RM10,000 and shall also be liable to a further fine not exceeding RM500 for every day that the offence is continued after conviction.

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Section 70 subsection 27 (f) of the SDBA also states that any person who occupies or permits to be occupied any building or any part thereof without a certificate of completion and compliance shall upon conviction be liable to a fine not exceeding RM250,000 or to imprisonment for a term not exceeding ten years or to both.

IV. Factories and Machinery Act 1967

The Factories and Machinery Act 1967 (“**FMA**”) regulates factories and machineries by providing examination and issuance of the certificate of fitness for relevant machineries to ensure compliance with the safety requirements of the Department of Occupational Safety and Health (“**DOSH**”). It is provided under Section 36 of the FMA that a person shall not install or caused to be installed any machinery except with the written approval of an Inspector of the Factories and Machineries.

Regulation 10 of the Factories And Machinery (Notification, Certificate Of Fitness And Inspection) Regulations, 1970 states that there are generally 3 types of machines which would require a certificate of fitness, namely a steam boiler, unfired pressure vessel or hoisting machine.

Under Section 19(1) of the FMA, a person is prohibited from operating or causing or permitting to be operated any machinery of which a certificate of fitness is required, unless there is in force in relation to the operation of the machinery a valid certificate of fitness under the FMA. Should there be any non-compliance with Section 19(1), any person, upon conviction shall be liable to a fine not exceeding RM150,000 or to imprisonment for a term not exceeding three years or to both.

V. Customs Act 1967

The Customs Act 1967 (“**CA 1967**”) regulates matters relating to customs duties, customs rulings, importation and exportation of warehousing goods liable to customs duties. Any license under the CA 1967 may be granted or revoked by the Director General of Customs and Excise of Malaysia (“**Director General**”) at his absolute discretion.

Section 65 of the CA 1967 provides that the Director General may at his absolute discretion on the payment of fees as fixed by him under each case, grant a license to any person, and at the same time may also withdraw said granted license for the warehousing goods liable to customs duties and any other goods in a place or places as specified under such license. Moreover, any such license shall be for such period and subject to such conditions as the Director General in each case may specify for each license.

Under Section 65A on the manufacture and other operations in relation to goods in licensed warehouse, in respect of a warehouse licensed under Section 65, the Director General, on payment of such fee as may be fixed by him in each case, grant a license to any person and when granted withdraw, suspend or cancel any such license, to carry on any manufacturing process and other operation in respect of the goods liable to customs duties and any other goods. A license under Section 65A(1) shall be deemed to include a license for warehousing goods as provided under Section 65. Any such license shall be for such period and subject to such conditions as the Director General may specify in the license. No

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goods which have undergone any manufacturing process in the warehouse may be released for home consumption or export without the prior approval of the Director General. If such goods are released from the warehouse for home consumption, the customs duty thereon shall be calculated on the basis as if such goods had been imported.

Pursuant to Section 138 of the CA 1967 which provides on the general penalties, every omission or neglect to comply with, and every act done or attempted to be done contrary to, the provisions of the CA 1967, or any breach of the conditions and restrictions subject to or upon which, any license or permit is issued or any exemption is granted under the CA 1967, shall be an offence under the CA 1967 and in respect of any such offence for which no penalty is expressly provided, the offender shall be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding five years or to both. Furthermore, there are terms and conditions attached under the LMW License. Under the terms and conditions of this license, should there be any repeated non-compliance committed by the LMW License holder, the Customs may take action against the LMW License holder which includes imposing a fine, revocation of license or imprisonment for a term not exceeding 5 years.

The manufacturers licensed under Section 65 or 65A of the CA 1967 shall be exempted from import tax over raw materials and components imported for the manufacturing of new finished goods as long as all requirements under such scheme are met, including that 80% of the end products are for export purposes.

VI. The Fire Services Act 1988

It is provided under Section 28 (1) of the Fire Services Act 1988 (“**FSA**”) that every designated premise requires a fire certificate. A designated premise is defined as the use, size or location of which have been designated by order of the Director General of Fire and Rescue as published in the Fire Services (Designated Premises) Order 1998 which includes factories. Section 33 of the FSA states that where there is no fire certificate in force in respect of the designated premises, the owner of the premise shall be guilty of an offence which upon conviction, shall be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding five years or to both.

B. LAWS RELATING TO THE EMPLOYMENT REGULATIONS

I. Employment Act 1955

The Employment Act 1955 (“**EA**”) regulates all employment related matters including contract of service, minimum work requirement, payment of wages, annual leave entitlement, medical leave entitlement, maternity protection, hours of work, termination, lay-off and retirement benefits as well as keeping a register of employees. The EA is administered by the Ministry of Human Resources which sets out the rights and responsibilities of employers and employees protected under the EA. It is further stated under the EA that in the event of inconsistency between terms contained in the employment contract and the provisions prescribed under the EA, the more favourable term shall prevail and enjoyed by the employee. Nevertheless, an employee aggrieved by the inconsistency may lodge a complaint of non-compliance of the standards under the EA to the Director General of Labour to bring the complaint of non-compliance to the Industrial Court.

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Under Section 20(1) of the Industrial Relations Act 1971, an employee may make a complaint to the Director General of Labour where he considers that he is dismissed without just cause by his employer. There is a 60 day limitation period as provided to make a complaint to the Director General of Labour. The limitation period begins running from the date notice of dismissal is given to the employee.

The EA provides that an “employee” shall mean any person, regardless of his occupation, who entered into a contract of service with an employer and is earning a monthly salary of not more than RM2,000 a month, or a person who, irrespective of their monthly wages who are engaged in manual labour including such labour as an artisan or apprentice, or who are engaged in the operation or maintenance of any mechanically propelled vehicle operated for the transport of passengers or goods or for reward or for commercial purposes, or who supervises or oversees other employees engaged in manual labour employed by the same employer and in and throughout the performance of their work or who are engaged in any capacity in any vessel registered in Malaysia or who are engaged as a domestic servant.

Any person who commits any offence under, contravenes and provisions of the EA or any regulations, order, or other subsidiary legislation whatsoever made thereunder, in respect of which no penalty is provided, shall be punishable to a fine not exceeding RM10,000 upon conviction.

II. Employment (Restriction) Act 1968

The Employment Restriction Act 1968 (“**ERA**”) governs the employment of foreigners. Pursuant to Section 5 of the ERA, a person is prohibited from employing a non-citizen of Malaysia unless there is a valid employment permit issued to said person.

In order to employ foreign workers, it is necessary to obtain approval from the Ministry of Home Affairs Malaysia (“**MHAM**”), which sets out the conditions amongst other things, the number, the position, the duration of employment and the sources or country of origin of the foreign workers. Once approval is obtained from MHAM, the employer shall submit applications for work permits and employment passes to the Foreign Workers Division, Immigration Department of Malaysia. Should there be any failure to comply with the conditions of the work permit and employment pass, the approval for the said permits and approval may be revoked.

Section 17 of the ERA states that any person in contravention with Section 5 of the ERA shall be liable upon conviction to a fine not exceeding RM5,000 or to imprisonment for a term not exceeding one year or to both.

III. Immigration Act 1959/63

The Immigration Act 1959 (“**IA**”) regulates immigration matters in Malaysia also sets out penalties on the illegal employment of foreign workers. It is provided under the IA that no person other than a citizen of Malaysia may enter the country unless he’s is possession of a valid entry permit or have been granted an exemption under the IA.

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Section 55B(1) of the IA further provides that any person who employs one or more persons, other than a citizen or a holder of an entry permit who is not in possession of a valid pass shall be guilty of an offence and shall, on conviction, be liable to a fine of not less than RM10,000 but not more than RM50,000 or to imprisonment for a term not exceeding twelve months or to both for each such employee.

Section 55B(3) goes on to state that where it is found that any person has at the same time employed more than five illegal employees shall on conviction be liable to imprisonment for a term of not less than six months but not more than five years and shall also be liable to whipping of not more than six strokes.

IV. Employees' Provident Fund Act 1991

The Employees' Provident Fund Act 1991 ("**EPFA**") imposes an obligation on employees and their employers to contribute the Employees' Provident Fund which is a fund established by the government as a retirement saving scheme.

Under the EPFA, both the employer and employee are obligated to make monthly contributions pursuant to the contribution rate as set out under the EPFA into the employees' individual account maintained with the Employee's Provident Fund ("**EPF**") wherein the employee is a Malaysian citizen or permanent resident. However, expatriates and foreign workers who are not Malaysian citizens or permanent residents are not required to contribute to the EPF unless they elect to do so. Should there be any failure by the employer to remit such contribution shall be guilty of an offence and upon conviction shall be liable to imprisonment of a term not exceeding three years or to a fine not exceeding RM10,000 or to both.

Section 42 of the EPFA states that every employer shall prepare and furnish statement of wages to each and every employee and the statement of wages shall contain such information as may be prescribed by the rules. Every employer shall prepare and keep one or more registers containing such information as may be prescribed by the rules and such register shall be kept for such period that every particular recorded therein shall be available for inspection for not less that six years after the recording thereof.

Under Section 43 of the EPFA, any person being an employer who fails, within such period as may be prescribed by the Minister of Finance, to pay to the fund any contributions for which he is liable under the EPFA to pay in respect of or on behalf of any employee in respect of any month shall be guilty of an offence and shall, on conviction, be liable to imprisonment for a term not exceeding three years or to a fine not exceeding RM10,000 or to both.

V. Employees' Social Security Act 1969

The Employees Social Security Act 1969 ("**ESSA**") provides social security for certain contingencies and is applicable to all industries having one or more employee.

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Section 6 of the ESSA provides that the contribution payable under the ESSA in respect of an employee shall comprise contribution payable by the employer (hereinafter referred to as the “**employer’s contribution**”) and contribution payable by the employee (hereinafter referred to as the “**employee’s contribution**”) and shall be paid to the Social Security Organization (“**SOC SO**”). The contributions shall fall into two categories namely (i) the contributions of the first category being the contributions payable by or on behalf of the employees insured against the contingencies of invalidity and employment injury; and (ii) the contributions of the second category, being the contributions payable by or on behalf of employees insured only against the contingency of employment injury.

Section 94 provides that if any person:

- (a) fails to pay any contribution or any part thereof which is payable by him under the ESSA or fails to pay within the time prescribed by regulations any interest payable under section 14A;
- (b) deducts or attempts to deduct from the wages of employee the whole or any part of the employer’s contribution;
- (c) in contravention of section 52 reduces the wages or any privileges of benefits admissible to an employee;
- (d) in contravention of section 53 of any regulation dismisses, discharges, reduces or otherwise punish an employee;
- (e) fails or refuses to submit any return or accident report required by the regulations, or make a false return or report;
- (f) obstructs any Inspector of other official of the Organization in the discharge of his duties; or
- (g) is guilty of any contravention of or non-compliance with any of the requirements of the ESSA or the rules or the regulations in respect of which no special penalty is provided,

shall be punishable with imprisonment for a term which may extend to two years, or with a fine not exceeding RM10,000, or with both.

VI. Employment Insurance System Act 2017

The Employment Insurance System Act 2017 (“**EISA**”) established the Employment Insurance System which administered by the SOC SO to provide benefits such as temporary financial assistance for up to six months to retrench workers.

An “employer” is defined under the EISA to mean the owner of an industry or the person with whom an employee has entered into a contract of service or apprenticeship. An employer registered with the SOC SO pursuant to the ESSA shall be deemed to have registered his industry under the EISA as well. Any employer who fails to register his industry shall upon conviction be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding two years.

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Every employer is required under the EISA to make monthly contributions according to the prescribed rate on behalf of its employees based on their monthly salaries, failure of which the employer shall be liable to pay an interest on such unpaid amount to the SOCSO at the rate as prescribed by the Minister in respect of any period during which such amount remains unpaid. The contribution shall be made up until the employee reaches their minimum retirement age.

VII. Minimum Wages Order 2020

The Minimum Wages Order 2020 (“**MWO**”) came into force on 1 February 2020. MWO provides that the minimum wages payable to employees in City Council and Municipal Council areas shall not be less than RM1,200.00 a month or RM5.77 per hour.

Any contravention of the MWO shall be punishable under the National Wages Consultative Council Act 2011 (“**NWCCA**”). Should an employer be found in non-compliance of the NWCCA shall commit an offence and upon conviction shall be liable to a fine of not more than ten thousand ringgit for each offence, and pursuant to Section 44 of the NWCCA, the court may also direct that the employer pay each employee the difference between the minimum wage rate and the employees’ wages. In the event of a continuing offence, Section 46 of the NWCCA provides that the offender shall on top of any other penalty he is liable for under the NWCCA to be liable for a daily fine not exceeding one thousand for each day the offence continues after conviction. Section 47 of the NWCCA provides that where the offence is repeated, the offender shall be liable to a fine not exceeding RM20,000 or to imprisonment for a term not exceeding five years.

VIII. Pembangunan Sumber Manusia Berhad Act 2001

The Pembangunan Sumber Manusia Berhad Act 2001 (“**PSMB**”) which is otherwise known as the human resources development fund governs the collection of levies from employers in the manufacturing and service industry as provided under the First Schedule of the PSMB and is known as the liable registrants. Under Part I of the First Schedule of the PSMB effective from 1 April 2017, an employer in the manufacturing industry with ten (10) or more employees shall register with the Corporation. Pursuant to Section 13(1) of the PSMB, an employer who fails to register themselves pursuant to the First Schedule shall commit an offence and on conviction shall be liable to a fine not exceeding RM10,000 or to imprisonment not exceeding one (1) year or to both.

Section 22(2) of the PSMB provides that the PSMB promotes the development, promotion and upgrading of the skills of employees, apprentices and trainees including providing, establishing, expanding, upgrading or maintaining training facilities.

Section 14(1) of the PSMB provides that a liable registrant under the PSMB shall pay a human resource development levy for each of his employees at the rate of one (1) percent of the monthly wage of the employees. Any employer who fails to pay the prescribed levy within the specified period shall commit an offence and on conviction shall be liable to a fine not exceeding RM20,000 or to imprisonment for a term not exceeding two (2) years or to both.

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C. LAWS RELATING TO ENVIRONMENT AND SAFETY

I. Occupational Safety and Health Act 1994

The Occupational Safety and Health Act 1994 (“**OSHA**”) regulates the safety, health and welfare of employees in the workplace to promote a physiologically and psychologically safe and healthy work environment for persons in the manufacturing industry.

Under the OSHA, there is an obligation on any persons in the design or manufacturing of products which uses any plant or machinery at work to ensure that the design and construction of the plant or machinery is safe and shall impose no risk to the health of its employees when used properly, and to ensure that the safe testing and examination of the plant and machinery is carried out and that the information on the use of the plant or machinery is available to its employees.

Section 16 of the OSHA provides that except in such cases as may be prescribed, it be the duty of every employer and every self-employed person to prepare and as often as may be appropriate revise a written statement of his general policy with respect to the safety and health at work of his employees and the organisation and arrangements for the time being in force for carrying out that policy, and to bring the statement and any revision of it to the notice of all of his employees.

Section 17 of the OSHA provides that it shall be the duty of every employer and every self-employed person to conduct his undertaking in such a manner as to ensure, so far as is practicable, that he and other persons, not being his employees, who may be affected thereby are not thereby exposed to risks to their safety or health and to give to persons, not being his employees, who may be affected by the manner in which he conducts his undertaking, the prescribed information on such aspects of the manner in which he conducts his undertaking as might affect their safety or health.

A person who contravenes the provisions of section 16 and 17 of the OSHA above shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding two years or to both.

D. LAWS RELATING TO PERSONAL DATA PROTECTION

I. Personal Data Protection Act 2010

The Personal Data Protection Act 2010 (“**PDPA**”) regulates the collection and processing of personal data of individuals by organisations. Section 4 of the PDPA defines a “data user” as a person who either alone or jointly or in common with other persons processes any personal data or has any control over or authorizes the processing of any personal data and “data subject” as the person whose personal data is being processed by the Data User. Under the PDPA, personal data is defined as any information related to commercial transactions that: (i) is being processed wholly or partly by means of equipment operating automatically in response to instructions given for that purpose; (ii) is recorded with the intention that it should wholly or partly be processed by means of such equipment;

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(iii) is recorded as part of a relevant filing system or with the intention that it should form part of a relevant filing system that relates directly or indirectly to a data subject, who is identified or identifiable from that information or from that and other information in the possession of a data user.

Under the PDPA, any organisations when collecting and processing the personal data of individuals shall be obligated to comply with the following principles:

- (i) the General Principle;
- (ii) the Notice and Choice Principle;
- (iii) the Disclosure Principle;
- (iv) the Retention Principle;
- (v) the Data Integrity Principle; and
- (vi) the Access Principle.

Any failure to comply with the general principles under the PDPA shall commit an offence and on conviction be liable to a fine not exceeding RM300,000 or imprisonment for a term not exceeding two years or to both.

E. LAWS RELATING TO INTELLECTUAL PROPERTY

I. Trade Marks Act 1976 & Trademarks Act 2019

The Trade Marks Act 1976 (“**old TMA**”) and the Trademarks Act 2019 (“**new TMA**”) regulate all matters related to trademark applications and registrations. Although the old TMA has been repealed by the new TMA (which came into force on 27 December 2019), the old TMA continues to be applicable, to govern the trademarks which were registered under the old TMA.

It is provided under Section 35 of the old TMA that the registration of a person as registered proprietor of a trademark (other than a certification trademark) in respect of any goods or services shall, if valid, give or deemed to have been given to that person the exclusive right to the use of the trademark in relation to those goods or services subject to any conditions, amendments modifications or limitations entered in the Register of Trade Marks. Where two or more persons are proprietors of registered trade marks which are identical or nearly resembling each other rights of exclusive use either of those trade marks are not (except so far as their respective rights have been defined by the Registrar of the Court) acquired by any one of those person as against any other of those persons by registration of the trade mark but each of those persons have the same rights as against other persons (not being registered users) as he would if he were the sole registered proprietor.

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F. LAWS RELATING TO TAX AND FOREIGN ADMINISTRATION

I. Income Tax Act 1967

The Income Tax Act 1967 (“ITA”) governs the imposition of income tax in Malaysia.

Section 77A(1) of the ITA provides that every company, limited liability partnership, trust body or co-operative society shall for each year of assessment furnish to the Director General of Income Tax a return in the prescribed form within 7 months from the date following the close of accounting period which constitutes the basis period for the year of assessment.

It is provided under Section 2 of Schedule 1 of the ITA that income tax shall be charged for a year of assessment on the chargeable income of a company which has a paid up capital, in respect of ordinary shares, more than RM2,500,000 at the beginning of the basis, at the rate of 25% for the year of assessment 2015 and 24% for the subsequent years of assessment on every RM of chargeable income.

Pursuant to Section 112 of the ITA on failure to furnish return or to give notice of chargeability, any person who makes default in furnishing a return in accordance with subsection 77A(1) or in giving a notice in accordance with subsection 77(3) shall, if he does so without reasonable excuse, be guilty of an offence and shall, on conviction, be liable to a fine of not less than RM200 and not more than RM20,000 or to imprisonment for a term not exceeding 6 months or to both.

II. Withholding Tax

The ITA provides that where any person is liable to make contract payment to a non-resident person, he shall upon paying or crediting such contract payment deduct withholding tax at the prescribed rate and shall within one month after paying or crediting such contract payment render an account and pay the amount of that tax to the Director General of Inland Revenue of Malaysia. The tax rate is provided under section 107A(1) of the ITA as follows:

- (i) 10% of the contract payment on account of tax which is or may be payable by that non-resident contractor for any year of assessment; and
- (ii) 3% of the contract payment on account of tax which is or may be payable by employees of that non-resident contractor for any year of assessment

and (whether or not that tax is so deducted) shall within one month after paying or crediting such contract payment render an account and pay the amount of that tax to the Director General of Inland Revenue.

Pursuant to Section 107A(2) of the ITA, where a person fails to make payment of any withholding tax due from him, that amount of which he had failed to pay shall be increased to a sum equal to ten per cent (10%) of the amount which he fails to pay and that amount plus the increased sum shall be a debt due from him to the Malaysian Government and shall be payable forthwith to the Director General of Inland Revenue of Malaysia.

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III. Financial Services Act 2013

The Central Bank of Malaysia (“**CBM**”) is the main administrative body which regulates the financial institutions in Malaysia and also supervises all payment systems, foreign exchange and the Malaysian money market in general in order to promote financial stability.

The Financial Services Act 2013 (“**FSA 2013**”) regulates the transfer of funds in and out of Malaysia. The rules and regulations under the FSA 2013 shall be applicable to residents and non-residents of Malaysia.

Under Notice 4 issued by the CBM, a non-resident is allowed to repatriate funds from Malaysia, including any income earned or proceeds from divestment of ringgit asset, provided that the repatriation is made in foreign currency. Foreign exchange administration rules also dictate that non-residents may remit out divestment proceeds, profits, dividends or any income arising from investments in Malaysia. It must be noted that repatriation can only be made in foreign currency.

All dividends and other distributions payable on the shares of each of our subsidiaries may under the current laws and regulations of Malaysia be converted and paid in any other foreign currency and be transferred out of Malaysia without the consent, authorization or approval of any governmental or regulatory body authority in Malaysia.

The said dividends payable to the shareholders will not be subject to withholding or other taxes under the laws and regulations of Malaysia.

G. LAWS RELATING TO RENEWABLE ENERGY

I. Renewable Energy Act 2011

The Renewable Energy Act 2011 (“**REA**”) provides for the establishment and implementation of a special tariff system to catalyse the generation of renewable energy and to provide for related matters.

The Renewable Energy (Technical and Operational Requirements) Rules 2011 states that a feed-in approval holder shall not make or permit to be made any material modification to the design or physical form of the renewable energy installation except with the prior written consent of the SEDA. If the modification results in any change in any information earlier submitted by or on behalf of the feed-in approval holder to the SEDA in the application for a feed-in approval under the Renewable Energy (Feed-in Approval and Feed-In Tariff Rate) Rules 2011.

Section 10 (1) of the REA provides that the Sustainable Energy Development Authority (“**SEDA**”) may revoke a feed-in approval if – (a) the feed in approval has failed to comply with any provisions of REA, the Electricity Supply Act 1990 or any subsidiary legislation; (b) the feed-in approval holder has failed to comply with any of the conditions of the feed-in approval; (c) the feed-in approval holder had improperly or illegally obtained the feed-in approval; (d) the feed-in approval holder has been convicted of an offence under the REA,

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Electricity Supply Act 1990 or any of their subsidiary legislation; (e) a receiver, receiver and manager, provisional liquidator or like official has been appointed over the whole or substantial part of the feed-in approval holder's assets and such appointment is not revoked or annulled within a period of sixty days from the date of such appointment or (f) there has been a change of circumstances such that the feed-in approval holder would no longer be entitled to be granted a feed-in approval under the REA.

LAWS AND REGULATIONS OF THE PRC

A summary of the laws, regulations and rules that are material to our business activities and operation in the PRC is set out below.

A. COMPANY LAW AND LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Company Law of the PRC (《中華人民共和國公司法》) (Order No. 16 of the President) (the “**Company Law**”), which was enacted by the Standing Committee National People's Congress (the “**SCNPC**”) on 29 December 1993 and was implemented since 1 July 1994, and was amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018, respectively, provides for the establishment, corporate structure and corporate management of companies, which also applies to foreign-invested enterprises in PRC. Company Law stipulates that a limited company shall prepare a shareholders' register, which shall record the following matters: (1) The name and address of each shareholders; (2) The capital contribution made by each shareholder; and (3) The serial number of each capital contribution certificate. The shareholders recorded in the shareholders' register may, pursuant to the shareholders' register, claim and exercise shareholders' rights. A company shall register the name of each shareholder and the shareholder's capital contribution at the company registration authority. The company shall carry out amendment of the registration in the event of any change in the registered details. Any registration detail that fails to be amended or registered shall not be valid against any third-party.

Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) (Order No. 39 of the President) (promulgated by the SCNPC and effective on 12 April 1986, amended on 31 October 2000, 3 September 2016) and the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》) (promulgated and became effective on 12 December 1990, amended on 12 April 2001, 19 February 2014), regulated the establishment, change, approval procedures of wholly foreign-owned enterprises.

On March 15, 2019, the National People's Congress (the “**NPC**”) approved the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the “**FIL**”), which took into effect on January 1, 2020 and replace three existing laws on foreign investments in the PRC, namely, the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》) and the foresaid Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》). On 26 December 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on 1 January 2020 and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law (《中華人民

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共和國中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》) and the Regulations on Implementing the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法實施細則》). The FIL embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic invested enterprises in the PRC. The FIL establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

According to Interim Measures for the Recordation Administration of the Incorporation and Change of Foreign-Invested Enterprises (the “**Interim Measures**”) (《外商投資企業設立及變更備案管理暫行辦法》) ([2016] Order No. 3 of the Ministry of Commerce) (promulgated by MOFCOM and became effective on 8 October 2016, amended on 30 July 2017 and on 29 June 2018), foreign-funded enterprises that do not involve special administrative measures for access of foreign investment shall fill out and submit Application Form for the Record of its Establishment as well as its Modification of basic information, investors, equity, cooperation interests, etc. The Recordation Formalities shall be conducted through the integrated management system of MOFCOM. On 30 December 2019, the MOFCOM and the State Administration for Market Regulation issued the Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》) which shall become effective from 1 January 2020 and the Interim Measures shall be repealed simultaneously. According to the Measures on Reporting of Foreign Investment Information, foreign investors or foreign investment enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System. Foreign investment enterprises shall also submit the annual report for the preceding year during 1 January to 30 June annually through the National Enterprise Credit Information Publicity System.

According to the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) jointly issued by the National Development and Reform Commission of the PRC and the Ministry of Commerce of the PRC on 28 June 2017, the Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) (《外商投資准入特別管理措施(負面清單)(2018年版)》) issued on 28 June 2018, the Special Administrative Measures (Negative List) for Foreign Investment Access (2019 Edition) (《外商投資准入特別管理措施(負面清單)(2019年版)》) issued on 30 June 2019, the Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Edition) (《外商投資准入特別管理措施(負面清單)(2020年版)》) issued on 23 June 2020, the business engaged by our PRC subsidiaries is permitted.

B. REGULATIONS OVER PROPERTY LAW

The properties we lease and own in the PRC are subject to the Property Law of the PRC (《中華人民共和國物權法》) (Order No. 62 of the President of the PRC) (promulgated by NPC on 16 March 2007 and became effective on 1 October 2007). Under the Property Law, any creation, modification, transfer or termination of property rights shall become effective upon registration with the relevant government authorities.

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The Administrative Measures on the Leasing of Commercial Buildings (《商品房屋租賃管理辦法》) (Order No.6 of the Ministry of Housing and Urban-Rural Development) (the “**Leasing Measures**”), promulgated by the Ministry of Housing and Urban-Rural Development on December 1, 2010, which became effective on February 1, 2011, provide that, amongst other things, illegal constructions may not be leased. Further, the Leasing Measures provide that a lease shall be filed with the local construction (real estate) administrative department. Although the PRC courts have previously ruled that failure to file a lease with the relevant PRC Government authorities does not in and of itself invalidate the lease, fines may be imposed by the local construction (real estate) administrative department for such violation, under the Leasing Measures.

C. REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (Order No. 22 of the President of the PRC) promulgated by the SCNPC on December 26, 1989, amended on April 24, 2014 and effective as of January 1, 2015, the environmental protection facilities should be designed, built, put into construction and used together with the principal part of the project. Besides, pollutant discharging enterprises, institutions and other manufacturing operators shall adopt measures to prevent and treat waste gas, wastewater, waste residue, medical waste, dust, malodorous gas, radioactive substances generated in manufacturing, construction or any other activities as well as environmental pollution and hazards such as noise, vibration, ray radiation, electromagnetic radiation etc. According to the Catalogue of Classification Management of Discharge Permits for Stationary Pollution Sources (2019 Edition) (《固定污染源排污許可分類管理名錄(2019年版)》) issued by the Ministry of Ecology and Environment. The state implements key management, simplified management, and registration management of pollutant discharge permits based on factors such as the amount of pollutants produced by the pollutant discharge units that discharge pollutants, their emissions, and their impact on the environment.

The environmental protection authorities would impose various administrative penalties on persons or enterprises in violation of the Environmental Protection Law under different circumstances. Such penalties include warnings, fines, orders to rectify and make treatment within the prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down those enterprises. Any person or entity that pollutes the environment resulting damages could also be held liable under the Tort Law of the PRC (《中華人民共和國侵權責任法》) (Order No. 21 of the President of the PRC), which was promulgated on December 26, 2009 and came into force on July 1, 2010. Environmental organizations could bring lawsuit against any entities that discharge pollutions detrimental to the public welfares.

1. Air Pollution

The Air Pollution Prevention Law of the People’s Republic of China (《中華人民共和國大氣污染防治法》) (Order No. 57 of the President of the PRC), promulgated on September 5, 1987 by the Standing Committee of the National People’s Congress, which became effective on June 1, 1988 and was respectively amended on August 29, 1995, April 29, 2000, August 29, 2015 and October 26, 2018, establishes the legal framework for air

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pollution prevention in the PRC. The environmental protection department of the State Council formulates national air quality standards. Each of the local environmental protection bureaus is authorized to regulate air pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for violation.

2. Water Pollution

The Water Pollution Prevention Law of the People's Republic of China (《中華人民共和國水污染防治法》) (Order No. 12 of the President of the PRC), promulgated on May 11, 1984 by the Standing Committee of the National People's Congress, which became effective on November 1, 1984, and amended on May 15, 1996, February 28, 2008, and June 27, 2017, establishes the legal framework for water pollution prevention in the PRC. The environmental protection department of the State Council formulates national waste discharge standards. Enterprises that discharge waste into water shall pay a treatment fee. Each of the local environmental protection bureaus is authorized to regulate water pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for violation, including suspending operations.

3. Noise Pollution

The Noise Pollution Prevention Law of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) (Order No. 77 of the President of the PRC), promulgated by the Standing Committee of the National People's Congress on October 29, 1996, which became effective on March 1, 1997 and amended on December 29, 2018, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, decoration or expansion project which might cause environmental noise pollution, shall prepare and submit an environmental impact report to the environmental protection authority for approval. Facilities for prevention and control of environmental noise pollution shall be designed and approved by the environmental protection authority prior to the commencement of the project, and be built and put into use simultaneously with the project works. Facilities for prevention and control of environmental noise pollution may not be dismantled or suspended without the approval of the environmental protection authority.

D. REGULATIONS RELATING TO FIRE PROTECTION

Pursuant to Fire Protection Law of the People's Republic of China (《中華人民共和國消防法》) (Order No. 4 of the President of the PRC) (promulgated by the SCNPC on April 29, 1998 and effective on September 1, 1998, respectively amended on October 28, 2008 and April 23, 2019), a real estate project shall get approval from or filing with relevant public security and fire protection authorities for fire protection design before the construction is started and subject to a fire protection as-built acceptance inspection.

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E. REGULATIONS RELATING TO SAFETY AND PRODUCT QUALITY

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) (Order No. 70 of the President of the PRC) which was promulgated by the SCNPC on June 29, 2002 and respectively amended on August 27, 2009 and August 31, 2014 requires that production and operation entities must establish production safety responsibility systems and the major responsible persons shall be fully responsible for the production safety of the entities. Production and business entities shall truthfully inform the employees of the risk factors involved in the work, preventive measures and emergency measures of the workplace. And employers shall provide the employees with protective equipment that meets national or industrial standards, supervise and educate them about wearing and use of the equipment. Production and business entities shall participate in work-related injury insurance as required by the law and pay the premium for the employees. Issues relating to the protection of employee safety, prevention of occupational hazards as well as payment of insurance premiums for work-related injury by employees shall be stated clearly in the labor contracts. Production and operation entities shall not enter into agreements with employees in any form waiving or reducing their legal liabilities for the injury or death of employees caused by production safety issues. Any production and business operation entity with more than 100 employees shall establish an administrative body of safe production or have full-time personnel responsible for the administration of safe production. For entities with less than 100 employees, full-time or part-time personnel for the administration of safe production are required. Violation of the Production Safety Law may result in an order to rectify, imposition of fines and penalties, the suspension of operation, an order to cease operation or shut down the entities, cancellation of relevant certificates or licenses, and/or criminal liability in severe cases.

The principal law governing product liability in the PRC is the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) (Order No. 71 of the President of the PRC) promulgated by the Standing Committee of the National People's Congress on February 22, 1993, and as amended on July 8, 2000, August 27, 2009 and December 29, 2018.

Pursuant to the Product Quality Law, a seller shall adopt measures to keep products for sale in good quality and comply with regulations regarding the labeling of products, and shall not sell defective or damaged products, forge the origin of a product, forge or falsely use another manufacturer's authentication marks, or substitute a fake product for a genuine product or a defective product for a high-quality product.

Violation of the Product Quality Law may result in the imposition of fines, suspension of business operations, revocation of business licenses and criminal liability. Aggrieved consumers may seek compensation from both the manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer, unless any agreement between the retailer and the manufacturer provides otherwise.

The Consumer Rights and Interests Protection Law of the People's Republic of China (《中華人民共和國消費者權益保護法》) (Order No. 11 of the President of the PRC) (the "**Consumers Protection Law**") was promulgated on October 31, 1993 and became effective on January 1, 1994. The Consumers Protection Law has been further revised on August 27, 2009 and October 25, 2013. According to the Consumers Protection Law, unless otherwise provided

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by this law, an operator that provides products or services may bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations. The Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》) (Order No. 21 of the President of the PRC), promulgated on December 26, 2009 and came into force on July 1, 2010, provides that in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

F. REGULATIONS RELATING TO IMPORTS AND EXPORTS

According to the Customs Law of the PRC (《中華人民共和國海關法》) (Order No. 51 of the President of the PRC), promulgated by the SCNPC on January 22, 1987, amended on July 8, 2000, June 29 2013, December 28 2013, November 7, 2016 and November 4, 2017, and effective as of 5 November 2017, unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the permission of the customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the customs in accordance with the laws. The declaration of inward and outward articles and payment of duties on them may be made by the owners of the articles themselves or by the persons they have entrusted with the work.

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (Order No. 22 of the President of the PRC), promulgated by the SCNPC on May 12, 1994, amended on April 6, 2004 and November 7, 2016, and effective as of November 7, 2016, foreign trade operators engaged in goods or technology import and export shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its entrusted institutions, except for those that do not need to go through the record-filing registration formalities prescribed by laws, administrative regulations and the provisions of the competent department of foreign trade under the State Council. The specific measures for record-filing registration shall be formulated by the competent department of foreign trade under the State Council. Where a foreign trade operator fails to go through the record-filing registration formalities, the customs are entitled to refuse to handle the formalities for declaration and clearance of goods imported or exported by the operator.

Pursuant to the Notice of the Ministry of Commerce on Relevant Issues Concerning the Record-Filing Registration of Right to Foreign Trade of Foreign-invested Enterprises (《商務部關於外商投資企業外貿權備案登記有關問題的通知》) ([2004] No. 46 of the Ministry of Commerce) issued by the MOFCOM on August 17, 2004 and effective as of the same date, any foreign-invested enterprises established after July 1, 2004 that engages in import or export of self-use or self-produced goods and technology of this enterprise need not go through the record-filing registration formalities for foreign trade operators. On the contrary, if a foreign-invested enterprise established after July 1, 2004 intends to engage in import or export of goods or technology not used or produced by itself, it shall complete the record-filing registration formalities after its establishment.

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G. REGULATIONS RELATING TO COMPETITION AND ANTI-TRUST LAWS

Pursuant to the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》) (Order No. 10 of the President of the PRC), promulgated by the Standing Committee of the National People's Congress on September 2, 1993, which became effective on December 1, 1993 and was amended on November 4, 2017 and April 23, 2019, businesses may not engage in improper market activities to undermine their competitors, including infringing trademark rights or confidential business information, generating false publicity through advertising or other means or forging and disseminating false information, infringing upon the goodwill of competitors or the reputation of their products, bribing, establishing cartels, and dumping goods below cost.

The Anti-Monopoly Law of the People's Republic of China (《中華人民共和國反壟斷法》) (Order [2007] No. 68 of the President of the PRC), promulgated by the Standing Committee of the National People's Congress on August 30, 2007, which became effective on August 1, 2008, requires proposals for foreign acquisitions and investment in domestic companies to undergo national security reviews, protects core Chinese industries, and grants the PRC Government authorities substantial discretion in making determinations as to monopolistic agreements, abuses of dominant positions, concentrations of power and abuses of administrative powers to eliminate or restrict competition.

Violation of the Anti-unfair Competition Law or the Anti-Monopoly Law may result in the imposition of fines, revocation of business licenses and criminal liability.

H. LABOUR AND SOCIAL INSURANCE-RELATED LAWS AND REGULATIONS

According to the Labour Law of the PRC (《中華人民共和國勞動法》) (promulgated by the SCNPC on 5 July 1994, became effective as at 1 January 1995, and as amended on 27 August 2009 and 29 December 2018), enterprises and institutions shall establish and improve their system of work place safety and sanitation, strictly abide by State rules and standards on work place safety, educate employee in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with national standards. The enterprises and institutions shall provide employees with work place safety and sanitation conditions which are in compliance with State stipulations and relevant articles of labour protection.

According to the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008 and revised on 28 December 2012 and came into effect on 1 July 2013), employment contracts shall be concluded in written form if employment relationships are to be or have been established between enterprises or institutions and the employees. Enterprises and institutions are forbidden to force the employees to work beyond the statutory time limit and employers shall pay employees for overtime work in accordance with national regulations. In addition, the wages shall not be lower than local standards on minimum wages and shall be paid to the employees timely.

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According to the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) ([1999] No. 259 Order of the State Council) (issued by the State Council on 22 January 1999, came into effect on the same day, and revised on 24 March 2019), the Regulation on Work Related Injury (《工傷保險條例》) ([2003] No. 375 Order of the State Council) (issued by the State Council on 27 April 2003, came into effect on 1 January 2004 and revised on 20 December 2010, came into effect on 1 January 2011), the Regulations on Unemployment Insurance (《失業保險條例》) ([1999] No. 258 Order of the State Council) (issued by the State Council on 22 January 1999 and came into effect on the same day) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》) ([1994] No. 504 Order of the Ministry of Labour and Social Insurance) (issued by the Ministry of Labour on 14 December 1994 and came into effect on 1 January 1995), Chinese enterprises shall provide their employees with benefit programs including basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. Employers must carry out social insurance registration at the local social insurance agency, provide social insurance and pay or withhold the relevant social insurance premiums for or on behalf of employees. According to the Social Insurance Law of PRC (《中華人民共和國社會保險法》) (Order No. 35 of the President of the PRC) (promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011 and as amended on 29 December 2018), for employers failing to conduct social insurance registration, the administrative department of social insurance shall order them to make corrections within a prescribed time limit; if they fail to do so within the time limit, employers shall have to pay a penalty over one time but no more than three times of then amount of the social insurance premium payable by them, and the executives who are directly responsible and other directly responsible persons shall be fined RMB500 to RMB3,000. Where an employer fails to pay social insurance premiums in full or on time, the social insurance premium collection agency shall order it to pay or make up the balance within a prescribed time limit, and shall impose a daily late fee at the rate of five-ten thousandths of the outstanding amount from the due date; if still failing to pay within the time limit prescribed, a fine of one time to three times the amount in default will be imposed on them by the relevant administrative department.

Pursuant to the Regulation on the Administration of Housing Provident Fund (《住房公積金管理條例》) (Order No. 262 of the State Council) (promulgated by the State Council on 3 April 1999 and was amended on 24 March 2002 and 24 March 2019), an enterprise shall make deposit registration of housing provident funds with the housing provident fund management centre, and shall, after the housing provident fund management centre has checked the registration, open the housing provident fund account with an entrusted bank for its employees. An enterprise shall, within 5 days of paying wages to an employee each month, remit the housing provident fund deposited by the enterprise and that withheld for the employee into the special housing provident fund account, and the entrusted bank shall deposit the aforesaid funds into the employee's housing provident fund account. Where an enterprise fails to deposit the housing provident fund within the time limit or under-deposits the fund, it shall be ordered by the housing provident fund management centre to deposit the fund or the deficit within a time limit, where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

REGULATORY OVERVIEW

I. INTELLECTUAL PROPERTY RIGHTS RELATED LAWS AND REGULATIONS

1. Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》), which was promulgated on 7 September 1990 and became effective on 1 June 1991 and amended respectively on 27 October 2001 and 26 February 2010, copyright protection extends to cover Internet activities and products disseminated over the Internet.

Pursuant to the Regulations on the Protection of Computer Software (《計算機軟件保護條例》), which was promulgated by State Council on 4 June 1991 and became effective on 1 October 1991 and respectively amended by the State Council on 20 December 2001, 8 January 2011 and 30 January 2013, and the Rules for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》), which was promulgated by the China Copyright Office and came into effective on 20 February 2002, anyone publishes, revises or translates computer software without obtaining the prior approval of the computer software copyright holders shall bear civil liability to the copyright owner because of harming the copyright. The corporate computer software copyright is valid for a term of 50 years until 31 December of the 50th year, starting from the date as of first publication. The computer software copyright owners shall register at the registration institution authorised by the PRC Copyright Office to obtain the computer software copyright registration certificates as a preliminary evidence of the computer software copyright being registered.

2. Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) (Order No. 10 of the SCNPC) (promulgated by the SCNPC on 23 August 1982, came into effect on 1 March 1983 and revised on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019) and the PRC Trademark Law Implementing Regulations (《中華人民共和國商標法實施條例》) ([2002] Order No. 358 of the State Council) (promulgated by the State Council on 3 August 2002 and came into effect on 15 September 2002, amended on 29 April 2014). The trademark bureaus under the General Administration for Industry and Commerce are responsible for trademark registration and authorizing registered trademarks for a validity period of 10 years. Trademark registrants may apply for renewal of registration, and the validity of a renewed registered trademark is the following 10 years. Trademark registrants may, by signing a trademark license contract, authorize others to use their registered trademark. The trademark license contract shall be submitted to the trademark office for filing. For trademarks, trademark law adopts the principle of “prior application” while handling trademark registration. Where a trademark under registration application is identical with or similar to the trademark of another party that has, in respect of the same or similar goods or services, been registered or, after examination, preliminarily approved, the application for trademark registration shall be rejected. Anyone who applies for trademark registration shall not impair any existing prior right of anyone else, or forestall others in registering a trademark which others have already begun to use and which has “some influence”.

3. Patent

According to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) (Order No. 11 of the President of the PRC) (promulgated by the SCNPC on 12 March 1984 and effective on 1 April 1985, and respectively amended on 4 September 1992, 25 August 2000 and 27 December, 2008) and the Detailed Rule for the Implementation of Patent Law (《中華人民共和國專利法實施細則》) (Notice No.3 of the Patent Bureau) (promulgated by the State Intellectual Property Office on 19 January 1985 and effective on 1 April 1985, and amended on 21 December 1992, 15 June 2001, 28 December 2002 and 9 January 2010, patent is divided into three categories: invention patent, utility model patent, and design patent.

Invention patent is intended to protect new technical solution for a product. The applicant for invention patent must prove that the subject matter product possesses novelty, creativity and practical applicability. The grant of invention patent is subject to disclosure and publication. Normally, the patent administrative authority publishes the application within 18 months after it is filed and if it meets the requirements of this Law in its preliminary review, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review within three years from the date the application is filed. The term of protection is 20 years from the date of application. Once the invention patent right is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, offering for sale, sale or import of the patented product, or use the patented method or otherwise engage in the use, offering for sale, sale or import of the product directly derived from applying the patented method, without the licensing of the patent holder.

Utility model patent is intended to protect new technical solution in relation to a product's shape, structure or a combination thereof, which is fit for practical use. The applicant for utility model patent must prove that the subject matter product possesses novelty, creativity and practical applicability. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility model patent is subject to the disclosure and publication upon application. The term of protection is 10 years from the date of application. Once the utility patent right is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, offering for sale, sale or import of the patented product, or use the patented method or otherwise engage in use, offering for sale, sale or import of the product directly derived from applying the patented method, without the licensing of the patent holder.

Design patent is intended to protect new design of a product's shape, pattern or a combination thereof as well as its combination with the color and the shape or pattern of a product, which creates an esthetic feeling and is fit for industrial application. The applicant for design patent protection must prove that the subject that for matter product is not identical to a prior design. The application procedure and term of protection is the same as that for utility patent. Once a design patent is granted, no individuals or entities are permitted to engage in the manufacture, offering for sale, sale or import of the product protected by such design patent, without the licensing of the patent holder.

4. Domain Names

According to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) (Order No. 43 of the Ministry of Industry and Information Technology), which was issued by the Ministry of Industry and Information Technology on 24 August 2017 and came into effect on 1 November 2017, the Ministry of Industry and Information Technology is responsible for managing Internet network domain names of China. The principle of “first-to-file” is adopted for domain name services. The applicant of domain name registration shall provide the agency of domain name registration with the true, accurate and complete information about the domain name holder’s identity for the registration purpose, and sign the registration agreements. Upon the completion of the registration process, the applicant will become the holder of the relevant domain name.

J. LEGAL SUPERVISION OVER THE CHINESE TAX

1. Enterprise Income Tax (“EIT”)

In accordance with the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) ([2007] No. 63 Order of the President of the PRC) (promulgated on 16 March 2007 and became effective from 1 January 2008 and amended on 24 February 2017 and 29 December 2018) and the Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “**Regulation on the Implementation of EIT Law**”) ([2007] No. 512 Order of the State Council) (promulgated on 6 December 2007 and became effective from 1 January 2008, and revised on 23 April 2019), enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Enterprises that are set up in the PRC under the PRC laws, or that are set up in accordance with the law of the foreign country (region) whose actual administration institution is in PRC, shall be considered as “resident enterprises”. Enterprises established under the law of the foreign country (region) with “de facto management bodies” outside the PRC, but have set up institutions or establishments in PRC or, without institutions or establishments set up in the PRC, have income originating from PRC, shall be considered as “non-resident enterprises”.

A resident enterprise shall pay EIT on its income originating from both inside and outside PRC at an EIT rate of 25%. A non-resident enterprise that has establishments or places of business in the PRC shall pay EIT on its income originating from PRC obtained by such establishments or places of business, and on its income which deriving outside PRC but has actual connection with such establishments or places of business, at the EIT rate of 25%. As regards important high-tech enterprises necessary to be supported by the state the corporate income tax shall be levied at the reduced tax rate of 15%. A non-resident enterprise that does not have an establishment or place of business in the PRC, or it has an establishment or place of business in the PRC but the income has no actual connection with such establishment or place of business, shall pay EIT on its passive income derived from the PRC at a reduced rate EIT of 10%.

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According to the Notice on Amending and Issuing the Measures for Determination and Administration of High-tech Enterprises (《高新技術企業認定管理辦法》) (promulgated by the Ministry of Science and Technology, the Ministry of Finance and the SAT on 29 January 2016 and entered into force on 1 January 2016), the high-tech enterprises refer to the resident enterprises that are registered in the territory of China (excluding Hong Kong, Macao and Taiwan) and engage in the ongoing research and development and technological achievement transformation within the “key high-tech areas with national supports” to form the core independent intellectual property rights, and carry out business activities on this basis. The high-tech enterprises that are identified according to the aforesaid conditions may enjoy the tax preferential policies in accordance with the EIT Law, the Regulation on the Implementation of EIT Law and other relevant provisions. After obtaining the qualification of high-tech enterprise, the enterprises shall enjoy the tax benefits from the year when the certificate of high-tech enterprise is issued, and may handle the preferential tax formalities at the competent tax authorities. The qualification for the identified high-tech enterprises is valid for three years from the date of issuance of certificate.

According to the Announcement on Several Issues concerning the Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (SAT Public Notice [2015] No. 7) (promulgated by SAT on 3 February 2015 and came into effect on the same day, revised on 17 October 2017 and 29 December 2017), where a non-resident enterprise indirectly transfers equities and other assets of a PRC resident enterprise to avoid the EIT payment obligation by making an arrangement with no reasonable business purpose, such indirect transfer shall be redefined and recognised as a direct transfer in accordance with the provisions of the EIT Law. Where the EIT on the income from the indirect transfer of real estate or equities shall be paid in accordance with the provisions of this Announcement, the entity or individual that directly assumes the obligation to make relevant payments to the transferor according to the provisions of the relevant laws or as agreed upon in the contract shall be the withholding agent.

2. Income Tax in Relation to Dividend Distribution

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the “**Arrangement**”) on 21 August 2006 and implemented the Arrangement from 1 January 2007. According to the Arrangement, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident, provided that such Hong Kong tax resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident if such Hong Kong tax resident holds less than 25% of the equity interests in the PRC company.

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Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (Guoshui Han [2009] No. 81) (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (國稅函 [2009] 81號), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied before a fiscal resident of the other party to a tax agreement can be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident of the other party who obtains dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to receipt of the dividends, reach a percentage specified in the tax agreement. According to the Circular on the Interpretation and the Determination of the “Beneficial Owners” in the Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》) (Announcement of the State Administration of Taxation [2018] No. 9) (promulgated by SAT on 3 February 2018 and came into effect on 1 April 2018), the determination of whether a company enjoys preferential tax treaty benefits shall be made based on an overall assessment of the various factors, together the actual situation of each specific case.

3. Value-added Tax

According to Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (Order No. 134 of the State Council) (promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and was amended on 5 November 2008, 6 February 2016, 19 November 2017), and The Detailed Rules for the Implementation of the Provisional Regulations of the People’s Republic of China on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 38 of the Ministry of Finance) (promulgated by the Ministry of Finance on 25 December 1993, came into effect on the same day and was amended on 15 December 2008 and October 28, 2011), organisations and individuals engaging in sale of goods or processing, repair and assembly services, sale of services, intangible assets, immovable and importation of goods in the PRC shall be taxpayers of Value-added Tax (“VAT”), the tax rate for taxpayers engaging in sale of services and intangible assets shall be 6% unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (Caishui [2011] No. 110) (《關於印發〈營業稅改徵增值稅試點方案〉的通知》) (財稅[2011] 110號), which was promulgated by the Ministry of Finance and the SAT on 16 November 2011, the State began to launch taxation reforms in a gradual manner with effect from 1 January 2012, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

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In accordance with Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》) (財稅[2016] 36號), which was promulgated on 23 March 2016 and came into effect on 1 May 2016, upon approval of the State Council, the pilot programme of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner starting from 1 May 2016, and all business tax payers engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot programme with regard to payment of value-added tax instead of business tax. For general service income, the applicable VAT rate is 6%.

According to the Notice of the MOF and the SAT on Implementing the Policy on Inclusive Tax Reliefs for Small and Micro Enterprises (Cai Shui [2019] No.13) (《財政部、稅務總局關於實施小微企業普惠性稅收減免政策的通知(財稅[2019]13號)》), which was promulgated on 17 January 2019, from 1 January 2019 to 31 December 2021, small and micro enterprises meet the standards under the notice can enjoy corresponding tax deductions for taxes such as VAT and EIT.

K. REGULATIONS RELATING TO FOREIGN EXCHANGE CONTROL

Under the Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administrative Regulations**”) (promulgated by the State Council on 29 January 1996, amended on 14 January 1997 and 5 August 2008, and became effective on 5 August 2008), Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as direct investment or engaging in the issuance or trading of negotiable securities or derivatives unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

In accordance with the Foreign Exchange Administrative Regulations, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the State Administration of Foreign Exchange (the “**SAFE**”) for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by the SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant government authorities (if necessary).

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles (Huifa [2014] No. 37) (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (匯發[2014] 37號) (the “**Circular 37**”) (promulgated by SAFE and came into effect on 4 July 2014), the SAFE carry out registration management for domestic resident’s establishment of special purpose vehicles (a “**SPV**”). A SPV is defined as “offshore enterprise directly established or indirectly controlled by the domestic resident (including domestic institution and domestic individual resident) with their legally owned assets and equity of the domestic enterprise, or

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legally owned offshore assets or equity, for the purposes of investment and financing.” “Round Trip Investments” refer to “the direct investment activities carried out by a domestic resident directly or indirectly via a SPV, such as establishing a foreign-invested enterprise or project within the PRC through a new entity, merger, acquisition or any other ways and obtaining ownership, control, operation and management and other rights and interests.” Before a domestic resident contributes its legally owned onshore or offshore assets and equity to a SPV, the domestic resident shall conduct foreign exchange registration for offshore investment with the local branch of the SAFE, and in the event of any change of basic information such as the individual shareholder, name, operation term, or if there is a capital increase or decrease, equity transfer or swap, merge, spin off or other amendment of the material items, the domestic resident shall complete foreign exchange alteration of the registration formality for offshore investment. In addition, according to the procedural guidelines as attached to the Circular 37, the principle of review has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled by him (first level)”.

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (匯發[2015]13號) (Huifa [2015] No. 13) (promulgated by SAFE on 13 February 2015, implemented and became effective on 1 June 2015 and partially repealed on 30 December 2019), the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

According to the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**Circular 19**”) (promulgated by SAFE on 30 March 2015, and became effective on 1 June 2015 and partially repealed on 30 December 2019), the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement (the “**Discretionary Foreign Exchange Settlement**”). The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of an foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined as 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

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Furthermore, the Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes:

1. directly or indirectly used for payment beyond the business scope of the enterprises or payment prohibited by relevant laws and regulations;
2. directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations;
3. directly or indirectly used for granting entrusted loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by third parties) or repaying bank loans in Renminbi that have been sub-lent to a third party; and
4. paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

Pursuant to the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》), or the “**Circular 16**” (Huifa [2016] No.16) (promulgated by SAFE on 9 June 2016, which became effective simultaneously.), enterprises registered in the PRC (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. The Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign exchange capital and foreign debts) on a discretionary basis which applies to all enterprises registered in the PRC. The Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, and such converted Renminbi shall not be provided as loans to its non-affiliated entities, except where it is expressly permitted in the business license.

According to the Notice of Further Facilitating Cross-border Trade and Investment (Huifa [2019] No.28) (《關於進一步促進跨境貿易投資便利化的通知》(匯發[2019]28號)) (promulgated by SAFE on 23 October 2019, and became effective on the same day), restrictions on the domestic equity investment by non-investment foreign-funded enterprises with their capital funds shall be cancelled.

L. REGULATIONS ON MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) which was promulgated on 8 August 2006, came into effect on 8 September 2006, and was amended and came into effect on 22 June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity interests in a domestic non-foreign invested

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enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity interests in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise by agreement and injects those assets to establish a foreign-invested enterprise. In the case where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company that is related to or connected with it/him, approval from MOFCOM is required.

M. REGULATIONS RELATING TO DIVIDEND DISTRIBUTIONS

Pursuant the FIL, foreign investors may, according to the present Law, freely remit into or out of China, in RMB or any other foreign currency, their capital contributions, profits, capital gains, income from asset disposal, intellectual property royalties, lawfully acquired compensation, indemnity or liquidation income and so on within the territory of China. In addition, pursuant to the Company Law, a mainland Chinese company is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A mainland Chinese company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

LAWS AND REGULATIONS OF THE PHILIPPINES

A. BACKGROUND OF THE GROUP

Micron Cleanroom is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines. Its Certificate of Incorporation was issued on 12 February 2009, with Company Registration No. CS200901941. Its principal address is in Unit 906, Page 1 Building, Acacia Avenue, Madrigal Business Park, Muntinlupa City.

Micron Cleanroom's primary purpose is to carry on the business as a manufacturer, trader, industrialist, dealer and general merchant for clean air equipment, air conditioners, air purifiers and all kinds of similar products and goods, including the design, maintenance and installation of cleanrooms for commercial and industrial use without engaging in retail trade business.¹

Below is a summary of pertinent Philippine laws and regulations that apply to Micron Cleanroom.

¹ Article II, Amended Articles of Incorporation issued on 27 January 2014.

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B. REGULATIONS RELATING TO FOREIGN INVESTMENT

1. Domestic market enterprises

Under Section 1(k), Rule I of the Implementing Rules and Regulations (“**IRR**”) of Republic Act (“**RA**”) No. 7042 or the Foreign Investments Act, as amended, domestic market enterprises with paid up equity capital of less than the equivalent of US\$200,000 are reserved to corporations organised under the laws of the Philippines of which at least 60% of its outstanding capital stock is owned and held by citizens of the Philippines. However, under Section 3(2), Rule IV of the IRR of RA No. 7042, small and medium-sized domestic market enterprises which involve advanced technology, as determined by the Department of Science and Technology (“**DOST**”), or which will issue an undertaking to employ at least 50 direct employees are allowed to be 100% foreign-owned if it has a minimum paid up capital of at least US\$100,000.

Under Section 1(k) of the IRR of RA No. 7042, domestic market enterprise means any corporation or enterprise “which produces goods for sales, or renders service or otherwise engages in any business in the Philippines”.

2. Retail trade

Retail trade as defined in RA No. 8762 or the Retail Trade Liberalisation Act of 2000 (“**RTLA**”), is any act, occupation or calling of habitually selling direct to the general public merchandise, commodities or goods for consumption. The RTLA covers only the sale of goods for consumption to the general public as end user. Under the RTLA, enterprises with a paid-up capital of less than US\$2.5 million are exclusively reserved for Filipino citizens and corporations wholly-owned by Filipino citizens.

The sale of equipment at wholesale or to industrial users and not to end users is not considered retail trade. Thus, paid-up capital requirement of US\$2.5 million is not mandatory in order to allow foreign investment in the company.

C. ANNUAL REPORTORIAL REQUIREMENTS TO THE SECURITIES AND EXCHANGE COMMISSION (“**SEC**”)

The SEC requires the filing of a General Information Sheet (“**GIS**”) within 30 days from the date of annual meeting as specified in the by-laws of a Company and Audited Financial Statements (“**AFS**”) duly stamped “Received” by the Bureau of Internal Revenue (“**BIR**”) within 120 days (105 days for corporations whose securities are registered under the Revised Securities Act or Securities Regulation Code) after the end of the fiscal year as specified in the by-laws.

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D. LOCAL GOVERNMENT CODE REQUIREMENTS

Under Sections 147 and 151 of the Local Government Code (“**LGC**”), municipalities and cities may levy reasonable fees and charges on business and occupation and the practice of profession. Corporations may be required to pay business taxes and secure business permits before they can operate within their jurisdiction.

1. Local Government Permits

Any entity engaged in business is required to apply for a Mayor’s Permit with the city or municipality where it intends to operate.² The Mayor’s Permit is issued upon satisfactorily showing that all pre-requisite permits such as sanitary permit, fire safety certificate, and environmental clearance, have been obtained.

E. REGISTRATION WITH THE BUREAU OF INTERNAL REVENUE (“**BIR**”)

Upon incorporation, all business establishments are required to secure a Certificate of Registration (BIR Form No. 2303) which contains an enumeration of different types of taxes that are required to be paid. After registration, corporations are required to file annual tax returns,³ and thereafter to pay the applicable taxes. Corporations are also required to file quarterly returns and payment for taxes withheld⁴ and corporate income tax.⁵

Any person required to make, render or file a return, statement or other documents with the BIR, shall be supplied with or assigned a Tax Identification Number (“**TIN**”) to be indicated therein, for his proper identification for tax purposes.⁶

1. Annual Registration with the BIR

All business establishments, after incorporation, and self-employed professionals are required to pay the BIR Annual Registration Fee of Php500.00 every year on or before 31 January. Corporations must use the BIR Form 0605 (Payment Form) for filing and payment of the renewal of the registration fee.

F. PHILIPPINE LABOR LAWS

1. Labor Law in General

Under the Labor Code of the Philippines (“**Labor Code**”), employment may be classified as (a) regular; (b) fixed/project-based; or (c) casual. The employment status is considered as regular if the employee is engaged to perform activities which are usually necessary or desirable in the usual business or trade of the employer; fixed/project-based

² Section 147, Local Government Code; Section 151, Local Government Code.

³ Section 52, National Internal Revenue Code.

⁴ Sections 57 and 58, National Internal Revenue Code.

⁵ Section 75, National Internal Revenue Code.

⁶ Section 236(i), National Internal Revenue Code.

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employment if the employment has been fixed for a specific project or undertaking where the completion or termination of which has been pre-determined at the time of the engagement of the employee; casual employment if the employment is not covered by the first two cases mentioned. Prior to qualifying for regular employment, an employee may be placed in probationary status subject to certain conditions. Regular employees are sometimes referred to as “permanent” employees.⁷

A regular employee is entitled to security of tenure and may only be terminated for just or authorized causes, subject to compliance with procedural due process requirements.⁸ A probationary employee may be terminated for just cause or when he fails to qualify as a regular employee in accordance with reasonable standards made known by the employer to the employee at the time of his engagement.⁹

2. Regular and Probationary Employment

A probationary employee is one who, for a given period of time, is being observed and evaluated to determine whether or not he is qualified for permanent employment. A probationary appointment affords the employer an opportunity to observe the skill, competence, and attitude of a probationer, and is thus for the benefit of the employer to provide it with ample time to observe and determine whether a newly hired employee has the competence, ability and values necessary to achieve its objectives.¹⁰

A probationary employee, like a regular employee, enjoys security of tenure. In cases of probationary employment, however, aside from just or authorized causes of termination, under Article 281 of the Labor Code, the probationary employee may also be terminated for failure to qualify as a regular employee in accordance with the reasonable standards made known by the employer to the employee at the time of the engagement. If the employer fails to inform the probationary employee of the reasonable standards on which his regularization would be based at the time of the engagement, then the said employee shall be deemed a regular employee.¹¹

Thus, under Philippine law, there are two (2) kinds of causes for termination of probationary employment, to wit:

1. Just or authorized causes; and
2. Failure to qualify as a regular employee in accordance with the reasonable standards of the company.

⁷ See *Carvajal vs. Luzon Development Bank*, G.R. No. 186169, 01 August 2012.

⁸ Articles 294, 297, 298 and 299 of the Labor Code; *Unilever Philippines, Inc. vs. Rivera*, 697 SCRA 136 (2013).

⁹ Article 295, Labor Code.

¹⁰ *Enchanted Kingdom, Inc. vs. Verzo*, 777 SCRA 422 (2015).

¹¹ *Id.*

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For termination of probationary employment based on just causes, the employer must observe the procedural due process requirements of twin notice and hearing.¹² Meanwhile, for termination of probationary employment based on authorized causes, the employer must serve written notice to both the employee and the Department of Labor and Employment (“DOLE”) at least 30 days before the effectivity of the termination, specifying the ground(s) for such termination.¹³ Finally, for termination of probationary employment based on failure to qualify as a regular employee, the employer must serve the employee with a written notice within a reasonable time from the effective date of termination,¹⁴ which termination must be made before expiration of the probationary period.¹⁵

3. Registration with DOLE

Every employer must be registered with the Regional Labor Office of the DOLE 30 days prior to its operation, the same being evidenced by a Registry of Establishment indicating the employer’s registration with the DOLE and its compliance with the OSHS.

4. Occupational Safety and Health Standards (“OSHS”)

Under Section 2 of the OSHS Law and its IRR, however, every establishment in the private sector must comply with the requirements under it, to wit:

SECTION 2. Coverage. — This Act shall **apply to all establishments**, projects, sites, including Philippine Economic Zone Authority (PEZA) establishments, and all other places where work is being undertaken in all branches of economic activity, **except in the public sector**.

Under the OSHS Law’s implementing rules and regulations, covered workplaces, including establishments with less than 10 workers and low-risk establishments with 10-50 workers, shall develop and implement a suitable OSH program.

5. Social Security System (“SSS”); Philippine Health Insurance Corporation (“Philhealth”); Home Development Mutual Fund (“HDMF”)

Coverage in the SSS,¹⁶ Philhealth,¹⁷ and HDMF¹⁸ shall be compulsory upon all employees not over 60 years of age and their employers. Employers are obligated to withhold and remit its employees’ contributions to the foregoing funds.¹⁹ Failure or refusal to remit contributions may result in the imposition of fines or in certain cases, imprisonment.²⁰ With respect to HDMF, the same violation may result in revocation and denial of the Company’s operating rights and privileges in the Philippines.

¹² Section 5.1, DOLE Department Order No. 147-15.

¹³ Section 5.3, DOLE Department Order No. 147-15.

¹⁴ *Philippine National Oil Company Energy Development Corporation vs. Buenviaje*, 795 SCRA 79 (2016).

¹⁵ *Pasamba vs. National Labor Relations Commission*, 524 SCRA 350 (2007).

¹⁶ Section 9(a), SSS Law.

¹⁷ Section 6, RA No. 7875.

¹⁸ Section 6, Pag-IBIG Law.

¹⁹ Section 18 and 22, SSS Law; Section 44, RA No. 7875, as amended; Section 23(a), Pag-IBIG Law.

²⁰ Section 22, SSS Law; Section 44, RA No. 7875, as amended; Section 25, Pag-IBIG Law.

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Under the SSS Law, the covered employees are entitled a package of benefits in the event of death, disability, sickness, maternity, and old age of an employee.

Under the Philhealth, covered employees are entitled to financial assistance to afford the cost of medical care, such as but not limited to in-patient care, catastrophic coverage, ambulatory surgeries, deliveries, and outpatient treatment.

Under the HDMF, covered employees are entitled to affordable housing loans and housing investment. The HDMF aims to improve the quality of life by providing sufficient shelter for its members.

6. Labor Laws on Job-Contracting

Job contracting arrangements under Philippine Labor law are governed by DOLE Department Order No. 174-17 (or the Rules Implementing Articles 106 to 109 of the Labor Code, As Amended). According to this issuance, “contracting” or “subcontracting” refers to an arrangement whereby a principal agrees to farm out to a contractor the performance or completion of a specific job or work within a definite or predetermined period, regardless of whether such job or work is to be performed or completed within or outside the premises of the principal.²¹

Job-contracting, which is undertaken to circumvent the worker’s right to security of tenure, self-organization and collective bargaining, and peaceful concerted activities, is strictly prohibited. The principal engaged in any arrangement in violation of said rule shall be considered the direct employer of the contractor’s or subcontractor’s workers for all purposes.

Under the law, contracting or subcontracting arrangements shall only be allowed if all of the following circumstances concur:

1. The contractor or subcontractor is engaged in a distinct and independent business and undertakes to perform the job or work on its own responsibility, according to its own manner and method;
2. The contractor or subcontractor has substantial capital²² to carry out the job farmed out by the principal on his account, manner and method, investment in the form of tools, equipment, machinery and supervision;
3. In performing the work farmed out, the contractor or subcontractor is free from the control and/or direction of the principal in all matters connected with the performance of the work except as to the result thereto; and
4. The agreement ensures compliance with all the rights and benefits for all the employees of the contractor or subcontractor under the labor laws.²³

²¹ Section 3 (c), DOLE Department Order No. 174-17.

²² Under Section 3 (l) of DOLE Department Order No. 174-17, “substantial capital” refers to paid-up capital stock/shares of at least Five Million Pesos (P5,000,000.00) in the case of corporations, partnerships, and cooperatives.

²³ Section 8, DOLE Department Order No. 174-17.

REGULATORY OVERVIEW

On this point, the DOLE imposes an absolute prohibition against “labor-only contracting” which in turn refers to an arrangement where:

1. The contractor or subcontractor does not have substantial capital, **or** does not have investments in the form of tools, equipment, machineries, supervision, work premises, among others, **and** the contractor’s or subcontractor’s employees recruited and placed are performing activities which are directly related to the main business operation of the principal; or
2. The contractor or subcontractor does not exercise the right to control over the performance of the work of the employee.²⁴

Recently, Executive Order No. 51 dated 01 May 2018 clarified that contracting or subcontracting, when undertaken to circumvent the worker’s right to security of tenure, self-organization and collective bargaining, and peaceful concerted activities, is strictly prohibited.²⁵ The principal engaged in any arrangement in violation of said rule shall be considered the direct employer of the contractor’s or subcontractor’s workers for all purposes.²⁶

G. PHILIPPINE NATIONAL STANDARDS

The Department of Trade and Industry-Bureau of Product Standards (“**DTI-BPS**”) is the National Standards Body of the Philippines and issues the Philippine National Standards (“**PNS**”) upon adoption of International Standards of the International Organization for Standardization (“**ISO**”). The DTI-BPS is the body which represents the Philippines in ISO and the International Electrotechnical Commission.

In April 2019, the DTI-BPS issued the following PNS on cleanrooms and associated controlled environments as follows:

1. PNS ISO 14644-1:2019 Cleanrooms and associated controlled environments – Part 1: Classification of air cleanliness by particle concentration;
2. PNS ISO 14644-2:2019 Cleanrooms and associated controlled environments – Part 2: Monitoring to provide evidence of cleanroom performance related to air cleanliness by particle concentration; and
3. PNS ISO 14644-3:2019 Cleanrooms and associated controlled environments – Part 3: Test Methods.

Moreover, in Memorandum Circular No. 18-11, the DTI listed certain electrical and electronic products including air conditioners, mechanical/building and construction materials and other systems which require Mandatory Certification as of 28 August 2018. The DTI-BPS conducts enforcement activities when there are reports on non-compliance of the standards.

²⁴ Section 5, DOLE Department Order No. 174-17.

²⁵ Section 2, Executive Order No. 51.

²⁶ Section 3, Executive Order No. 51.

REGULATORY OVERVIEW

H. TAXES ON DOMESTIC COMPANIES

Corporations in the Philippines are subject to Corporate Income Tax. The taxable income derived by a taxable domestic corporation from all sources within and without the Philippines is subject to a Corporate income tax of 30%. Passive income, capital gains subject to final tax, royalties, interest, dividends are subject to specific rates as provided in the Tax Code.

I. REGULATIONS ON IMPORTATION

1. Customs Regulations

Importation of certain commodities and products in the Philippines is regulated or prohibited for certain reasons such as public health and safety. Under RA No. 10863 or the Customs Modernisation and Tariff Act (“**CMTA**”), imports are classified as follows:

1. freely importable goods under Section 116 of the CMTA – goods which may be freely imported into and exported from the Philippines without need for import and export permits, clearances or licenses;
2. regulated goods under Section 117 of the CMTA – goods which are allowed to be imported or exported only after securing the necessary goods declaration or export declaration, clearances, licenses, and any other requirements, prior to importation or exportation; or
3. prohibited or banned commodities under Section 118 of the CMTA – the importation of these commodities is not allowed under existing laws.

The importation status of any commodity (whether prohibited, regulated or freely importable) may be verified with the relevant government agency, such as the Bureau of Customs (“**BOC**”). In addition, customs laws and regulations require the registration of an importer with the BOC.

(i) Importation Permit

All importers, unless otherwise exempted, are required to be accredited by the BOC.²⁷ For private entities, only the following importation activities are exempt from the accreditation requirement of the BOC:

1. Once-a-year importation; and
2. Importation by parcel post or by informal entry.²⁸

²⁷ Department of Finance Department Order No. 12-2014.

²⁸ Section 2.1, Customs Memorandum Order No. 04-2014.

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2. Transfer Pricing Regulations

Since the Company and its main suppliers are associated entities, the transactions between them must comply with the Transfer Pricing Guidelines. Since they are associated entities, their transactions with each other must comply with the following requirements of Bureau of Internal Revenues (“BIR”) Revenue Regulations 2-2013, or the “Transfer Pricing Guidelines”:

1. **The Transaction must be arm’s length:** it should be made under comparable conditions and circumstances as a transaction with an independent party.²⁹ Essentially, the income of the Malaysian entities from its sales to Micron Cleanroom must be equivalent to what would be earned by a similarly situated taxpayer from a transaction with a third party; and
2. **Documentation requirement:** the corporations must maintain and keep adequate and specific transfer pricing documentation to demonstrate that their transfer prices are consistent with the arm’s length principle.³⁰ More importantly, the documentation must be contemporaneous, i.e., they must exist or are brought into existence at the time the associated enterprises develop or implement any arrangement that might raise transfer pricing issues or review these arrangements when preparing tax returns.³¹

3. Tax Regulations on Importation

The importation of the goods is subject to Value Added Tax (“VAT”) equivalent to twelve percent (12%) based on the total value used by the BOC in determining tariff and customs duties, plus customs duties, excise taxes, if any, and other charges, which shall be paid by the importer prior to the release of such goods from customs custody, provided, that where the customs duties are determined on the basis of the quantity or volume of the goods, the VAT shall be based on the landed cost plus excise taxes, if any.³²

J. UNFAIR TRADE PRACTICES AND ANTI-COMPETITIVE BEHAVIOR

1. Philippine Competition Act

RA No. 10667 or the Philippine Competition Act establishes the Philippines’ first consolidated framework on competition policy. The law expressly prohibits, regulates, or prohibits anti-competitive agreements, abuse of dominant position, and mergers and acquisitions that prevent or restrict competition.

The prohibitions against anti-competitive agreement and abuse of dominant position are relevant with respect to the supply of goods or services:

²⁹ Section 5, Revenue Regulation 2-2013.

³⁰ Section 12, Revenue Regulations 2-2013.

³¹ Section 12(b), Revenue Regulations 2-2013.

³² Section 107(A), National Internal Revenue Code.

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(i) Anti-Competitive Agreements

Anti-competitive agreements are contractual arrangements entered into between or among competitors for the purpose of restricting competition. Under Section 14 of the Philippine Competition Act, anti-competitive agreements are classified into two types: those that are prohibited *per se* and those that are prohibited if shown to have an adverse impact on competition. Under Section 14(a) of the Philippine Competition Act, prohibited *per se* agreements are agreements between or among competitors that restrict competition as to price or other terms of trade, or that fix the price and terms of engagement at an auction or bidding.

Under Section 14(b) of the Philippine Competition Act, the second category of anti-competitive agreement are those agreements which substantially prevent, restrict, or lessen competition, such as arrangements that control production, technological development, or investments, and those that divide the market whether by volume of sales, purchases or territory. Under Section 14(c) of the Philippine Competition Act, unlike the first group of anti-competitive agreements, this second group of prohibited anti-competitive agreements may not necessarily be deemed a violation of the law if it is shown that agreement contributes to improving the production or distribution of goods and services or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit.

(ii) Abuse of Dominant Position

Section 15 of the Philippine Competition Act prohibits entities from abusing their dominant position by engaging in conduct that would substantially prevent, restrict, or lessen competition. Under the Philippine Competition Act, dominant position is defined as a position of economic strength such that an entity can control the relevant market independent from other competitors, customers, suppliers, or consumers. Section 27 of the Philippine Competition Act provides that in determining whether an entity has market dominance, the Philippine Competition Commission (“PCC”) considers the following factors, among others: share on the entity in the relevant market and whether it is able to fix prices unilaterally or to restrict supply in the relevant market, existence of barriers to entry, existence and power of its competitors, possibility of access by its competitors or other entities to its sources of inputs, and the power of its customers to switch to other goods or services. There shall be a rebuttable presumption of market dominant position if the market share of an entity in the relevant market is at least 50%, unless a new market share threshold is determined by the PCC for that particular sector.

Under Section 15 of the Philippine Competition Act, acts which are deemed to constitute abuse of dominant position include predatory pricing, erecting barriers to entry, subjecting transactions to unreasonable conditions, product tie-ups and limiting production, markets, or technical development to the prejudice of consumers. In order to be illegal, these specifically identified acts/agreements must prevent, restrict or lessen competition. Acquiring, maintaining and increasing market share through legitimate means that do not substantially prevent, restrict or lessen competition, or

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those conduct which contributes to improving production or distribution of goods or services within the relevant market, or promoting technical and economic progress while allowing consumers a fair share of the resulting benefit may not necessarily be considered an abuse of dominant position.

2. Philippine Consumer Act

Article 52 of RA No. 7394 or the Consumer Act also expressly prohibits unfair or unconscionable sales act or practice by a seller or supplier in connection with a consumer transaction. Under Article 52 of the Consumer Act, an act or practice is deemed unfair or unconscionable whenever the producer, manufacturer, distributor, supplier or seller, by taking advantage of the general conditions of the environment or surroundings, induces the consumer to enter into a sales or lease transaction which are grossly inimical to the interests of the consumer. In determining whether an act or practice is unfair and unconscionable, the following circumstances are considered:

1. the producer, manufacturer, distributor, supplier or seller took advantage of the inability of the consumer to reasonably protect his interest because of his inability to understand the language of an agreement, or similar factors;
2. the price grossly exceeded the price at which similar products or services were readily obtainable in similar transaction by like consumers;
3. the consumer was unable to receive a substantial benefit from the subject of the transaction;
4. the seller or supplier was aware that there was no reasonable probability or payment of the obligation in full by the consumer; and
5. the transaction was excessively one-sided in favour of the seller or supplier.

3. Warranties

Article 1547 of the Civil Code of the Philippines ("**Civil Code**") states that in a contract of sale, there is an implied warranty that the thing sold is free of any hidden faults or defects, or any charge or encumbrance not declared or known to the buyer unless a contrary intention appears. Article 1715 of the Civil Code requires that the contractor must execute a work in such a manner that it has the qualities agreed upon and has no defects which lessen its value or use. If not of such quality, the employer, herein the customer, may require the contractor to remove the defect or execute another work.

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K. LAWS ON CONTRACTING

Under RA 4566 or the Contractor's License Law, all contractors are required to secure a license from the Philippine Contractors Accreditation Board ("**PCAB**") before it can engage in the business of construction. The law does not define what activities are deemed as construction, but it has defined a contractor as follows:³³

(b) "Contractor" is deemed synonymous with the term "builder" and, hence, any person who undertakes or offers to undertake or purports to have the capacity to undertake or submits a bid to, or does himself or by or through others, construct, alter, repair, add to, subtract from, improve, move, wreck or demolish any building, highway, road, railroad, excavation or other structure, project, development or improvement, or to do any part thereof, including the erection of scaffolding or other structures or works in connection therewith. The term contractor includes subcontractor and specialty contractor.

A contractor may be classified as either a General Engineering Contractor, General Building Contractor or Specialty Contractor. We note that the sale or installation of any finished products, materials or articles or merchandise, which are not actually fabricated into and do not become a permanent and fixed part of the structure is not deemed as construction contracting which requires a PCAB license.³⁴

Before a Company may engage in constructing contracting services, the Corporation is required to secure a license from PCAB. However, in order to secure a regular license from PCAB, the Corporation must have at least sixty percent (60%) equity ownership by Filipinos.³⁵

LAWS AND REGULATIONS OF SINGAPORE

REGULATIONS ON IMPORTATION

A. Customs Act, Chapter 70 of Singapore

The Customs Act, together with its subsidiary legislation, provides for, among others, the duty on goods whether manufactured in Singapore or elsewhere ("**excise duties**") levied on products imported into Singapore.

Section 10 of the Customs Act states, among others, that there shall be charged, levied and paid to the Director-General of Singapore Customs such excise duties on goods imported into Singapore as set out in the Customs (Duties) Order.

³³ Section 9(b), RA 4566.

³⁴ Section 11, RA 4566.

³⁵ Section 3.1(a), RA 4566.

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Section 27 of the Customs Act provides, among others, that no dutiable goods shall be removed from customs control except after payment of the excise duty payable thereon, unless under such conditions as the Director-General of Singapore Customs may impose.

B. Regulation of Imports and Exports Act, Chapter 272A of Singapore

Under the Regulation of Imports and Exports Act, the Minister of Trade and Industry may make regulations for the registration, regulation and control of all or any class of goods imported into, exported from, transhipped in or in transit through Singapore. The Regulation of Imports and Exports Regulations was prescribed in 1995 to control the import, export or transshipment of certain goods through the requirement of permits.

We supply and install cleanroom wall and ceiling systems and component parts and the building materials (“**Cleanroom Wall and Ceiling**”), and cleanroom equipment and accessories and components (“**Cleanroom Equipment**”) to customers in Singapore, and purchase Cleanroom Wall and Ceiling and Cleanroom Equipment from our suppliers in Singapore. We make the necessary permit applications for our imports and exports on a transactional basis.

HISTORY AND DEVELOPMENT

OVERVIEW

Our Company was incorporated on 11 June 2019 in the Cayman Islands and, as part of our Reorganisation, became the holding company of our Group with our business conducted through our subsidiaries. Throughout the Track Record Period, Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Chang Chin Sia, Ng Boon Hock, Ms. Yap, Mr. Chin, Loh Wei Loon and Phang Chee Kin have maintained control over all of our subsidiaries. For details on the shareholding structure of our Group companies, see the paragraph “Reorganisation — Corporate and shareholding structure immediately following the Reorganisation” in this section.

Immediately upon completion of the Capitalisation Issue and the Global Offering (assuming that the Share Options have not been exercised), Mr. Ng and, Mr. Chia, Mr. Law, Mr. Lim, Chang Chin Sia, Ng Boon Hock, Ms. Yap, Mr. Chin, Loh Wei Loon and Phang Chee Kin, will together hold approximately 54.2% of the voting rights of our Company and will be our Controlling Shareholders. Each of our Controlling Shareholders has executed the AIC Confirmation which stated and confirmed, among other things, that they have been acting in concert with each other for the entire duration when all of them were/are contemporaneously either the legal and/or beneficial owners of shares in each of our Group companies, and shall continue to centralise the ultimate control and right to make decisions with respect to their interest in our businesses.

OUR BUSINESS DEVELOPMENT

Our business mainly comprises the production of two major categories of products, namely, (a) cleanroom equipment under our “Micron” brand and (b) cleanroom wall and ceiling systems under our “Channel Systems” brand.

According to the F&S Report, the first modern cleanroom system in the world was developed in the 1960’s and the cleanroom system was introduced to developing Asian countries such as Malaysia in the 1980’s. Demand for cleanroom grew in Asia in the 1990’s due to the surge of the semiconductor and microelectronics manufacturing industries in Asia. In light of such emergence of the cleanroom industry in Asia, our Group was founded by Mr. Chia and Mr. Dua Kok Yeow, who is now an Independent Third Party of our Company, when they first incorporated Micron (M) back in 1989 with their personal resources. Micron (M) started off as a cleanroom equipment trader in Malaysia. Following the expansion of our business, we set up our first Group company in Malaysia to manufacture our own cleanroom equipment in 1995 and since then, we have accumulated experience in such manufacturing. In July 1993, Micron (M) became a wholly-owned subsidiary of HITI Engineering (M) Sdn. Bhd. (“HITI”), an independent third party of our Company. HITI was a company principally engaged in trading, design and construction of cleanroom and high technology plants. Mr. Ng first became a shareholder of our Group when he subscribed for 25,000 shares of Micron (M) in October 1993. In August 2007, HITI sold all its interest in Micron (M), during which, Mr. Ng Boon Hock and Mr. Chang Chin Sia became shareholders of Micron (M) by each acquiring 46,560 shares from HITI. Mr. Loh Wei Loon and Mr. Phang Chee Kin first acquired interest in Micron (M) in May 2015 by each acquiring 5,680 shares from an exiting shareholder. Mr. Ng, Mr. Loh Wei Loon and Mr. Phang Chee Kin were all employees of our Group, and together with Mr. Chang Chin Sia and Mr. Ng Boon Hock, they were invited to acquire equity interest in Micron (M) to incentivise them and align their interest with our Group. Mr. Chin first became an indirect shareholder of our Group when Visbis (M) Sdn. Bhd. (a company owned by Mr. Chin and Ms. Ng Sook Yen in equal share) subscribed for 42,000 shares in Max Micron, one of our Group companies. Mr. Chin, an employee of our Group, was invited to acquire equity interest in Max Micron to incentivise him and align his interest with our Group.

We started our business relationship with Channel Systems Inc. in 1997, sourcing cleanroom wall and ceiling systems products from it to supply to a semiconductor manufacturing facility in Malaysia. Channel Systems Inc. was then owned by Ms. Lauren Lindquist Bockmiller and Mr. Douglas Frederick Bockmiller as to 55.0% and 45.0%, Mr. Douglas Frederick Bockmiller also owned 50% of Pacific Panel Inc., while the remaining 50% is owned by Mr. Peter Wayne Borris. Both Channel Systems Inc. and Pacific Panels Inc. were principally engaged in the

HISTORY AND DEVELOPMENT

manufacturing and sale of cleanroom wall and ceiling systems in North America. While we were exploring business opportunities to expand our product scope to cover the sale of cleanroom wall and ceiling systems, Channel Systems Inc. and Pacific Panels Inc. were interested in seeking opportunities to cooperate with a local industry peer and expand their business in Asia, tapping into the market using their advanced technology as their competitive edge. As a result, we together with Channel Systems Inc. and Pacific Panels Inc. formed a joint venture company, Channel Systems (Asia), in 1999 in Malaysia to explore and expand the Southeast Asian market using Malaysia as our production and operation hub. The product offering to our customers has then broadened to cover cleanroom wall and ceiling systems manufactured by us through this joint venture and since then, we had developed the capability to manufacture both cleanroom equipment and cleanroom wall and ceiling systems to better cater for the growing market in Southeast Asia.

Demand for cleanroom facilities in Asia experienced another surge in the 2000's as a result of growth of the semiconductor and microelectronics manufacturing industries in the PRC. As we received a growing order volume from contracts in the PRC, and driven by the eagerness to capture this business opportunity, Channel Systems (Asia) decided to set up a sales office in the PRC in 2001 to support its business operations there and subsequently incorporated Channel Systems (Shanghai) in 2004. Our first production facility in the PRC was located in Jinqiao Export Processing Zone (Southern Zone) in Pudong, Shanghai, the PRC and commenced operations in 2004 to produce cleanroom wall and ceiling systems for local contractors. In 2007, we relocated such production facility to its current location in Chuansha Road, Pudong New Area, Shanghai, the PRC to allow for expansion in production capacity. Our operations in the PRC are mainly conducted by Channel Systems (Shanghai) and Channel CR Material. Both companies are under the joint venture arrangements between Channel System Inc. and Pacific Panels Inc. on one part and Micron (M) on the other part to engage in cleanroom wall and ceiling systems business. As such, the PRC Factory did not produce cleanroom equipment in the past.

In April 2008, Mr. Law and Mr. Lim first became a shareholder of our Group by acquiring 10,750 shares and 6,010 shares respectively in Channel Systems (Asia) from the then shareholders. Ms. Yap acquired 40,250 shares in Channel Systems (Asia) from Micron (M) in March 2013. Mr. Law, Mr. Lim and Ms. Yap were all employees of our Group and were invited to acquire equity interest in Micron (M) to incentivise them and align their interest with our Group.

Through about 30 years of solid track record, we have established our brand reputation in the industry and have been entrusted by facility owners and contractors with their new cleanroom facility contracts in the PRC and Southeast Asian countries such as Malaysia, Singapore and the Philippines. We have become one of the major preferred suppliers due to the high quality products and reliable services we offered, evidenced by our record that no material incident had ever been caused by our products in contracts we engaged in. When cleanroom facility owners chose to set up their facilities around the globe, we were often invited to tender or provide quotation for contracts of their facilities around the globe because of our brand reputation and track record. As a result, our products had been supplied to continental Europe, the United Kingdom, as well as the Middle East, covering many industries such as semiconductor, electronics, pharmaceutical products, data centres, hospital, research laboratories and food manufacturing plants. Our Malaysia office and factories have been and will continue to be responsible for handling our sales and supply to customers in various countries around the globe except for China.

According to the F&S Report, Asian market, especially China, significantly contributed to the global cleanroom facility market growth during the last few years. The cleanroom facility market in China and Southeast Asia increased to USD16.6 billion and USD2.3 billion in 2019, with a 4-years CAGR of 18.0% and 2.9% respectively, and are expected to increase further to USD24.8 billion and USD2.9 billion with a CAGR of 8.9% (with the semiconductor portion of the market growing the fastest at a CAGR of 18.8%) and 4.5% respectively from 2020 to 2024. While our Malaysia Factory is our manufacturing base serving the rest of the world, our PRC office and production facilities are mainly responsible for serving domestic market in the PRC so that there would not be any import taxes and we can offer more competitive pricing.

HISTORY AND DEVELOPMENT

Notwithstanding that during the Track Record Period, our major geographical markets were the PRC, Malaysia, Singapore and Philippines and our customers' facilities were mainly in semiconductor and pharmaceutical industries, we will continue to capture various opportunities available in the PRC and Southeast Asian countries covering other industries where demand for cleanroom facilities is growing. In view of the market outlook, we consider that the PRC will remain as our major geographical market and semiconductor and pharmaceutical industries will have the highest demand.

Business Milestones

We set out our major business milestones and achievements below:

Year	Event
1989	We commenced cleanroom equipment trading business in Malaysia.
1995	We setup Micron Technology principally engaging in manufacturing cleanroom equipments under "Micron" brand in our first production facility in Malaysia.
1999	Micron (M), Pacific Panels Inc. and Channel Systems Inc. formed a joint venture by incorporation of Channel Systems (Asia) to expand into the cleanroom wall and ceiling system business. We set up a representative office in the Philippines.
2000	We commenced cooperation with our largest customer during the Track Record Period by supplying cleanroom walls for a major U.S. semiconductor wafer manufacturer's first wafer fabrication plant in Malaysia, which complied with Class 100 and 1000 of FED-STD-209E standard.
2001	We entered the PRC market by setting up our sales office.
2002	We obtained a contract in the PRC, supplying cleanroom wall and ceiling systems to Customer E (one of our five largest customers during the Track Record Period) for a manufacturing facility of a multinational information technology company.
2003	We obtained a contract in Shanghai, supplying cleanroom wall and ceiling systems to our largest customer during the Track Record Period, for a semiconductor wafer fabrication facility of the globally largest semiconductor foundry (in terms of revenue in 2019, according to the F&S Report).
2004	Our first production facility in the PRC commenced operation, supplying cleanroom wall and ceiling systems for our PRC contracts.
2005	We obtained our first GMP standard cleanroom contract for a manufacturing facility for a healthcare product brand in Suzhou, PRC.

HISTORY AND DEVELOPMENT

Year	Event
2007	<p>We relocated our PRC production facility to its current location in Pudong, Shanghai.</p> <p>We obtained our first contract in the United Kingdom, supplying our cleanroom wall and ceiling systems to the semiconductor and pharmaceutical laboratories of a university.</p>
2009	<p>We set up Micron Cleanroom in the Philippines.</p>
2010	<p>We obtained our first contract in Australia, supplying cleanroom equipment to our largest customer during the Track Record Period for a pharmaceutical cleanroom of a pharmaceutical company.</p>
2012	<p>We obtained our first contract in the Middle East, supplying cleanroom wall and ceiling systems for a pharmaceutical GMP compliant cleanroom of a pharmaceutical company in Saudi Arabia.</p>
2016	<p>We entered the continental European markets, supplying our cleanroom equipment to Customer E (one of our five largest customers during the Track Record Period) for a food and beverage GMP compliant cleanroom in Hungary for a well-known international food company.</p> <p>We started to supply new products for data centre application and obtained our first data centre cleanroom contract, providing cleanroom wall and ceiling systems to the main contractor for the construction of a data centre in Singapore owned by a world famous technology company.</p>
2017	<p>We obtained our first contract to supply our products to Customer E (one of our five largest customers during the Track Record Period) for a high temperature dry cleanroom, which forms part of the manufacturing facility of electrical vehicle battery in Singapore.</p>
2018	<p>We obtained Subcontractor Safety, Civilization and Advancement Award* (安全文明施工優秀承包商), M+W Group National Data Centre Project (Phase One) 2 million Safe Working Hours Celebration* (國家存儲器基地項目(一期)無塵室包200萬安全工時慶典) and SMNC B2B 6K Project Subcontractor Safety and Advancement Award* (安全先進承包商) from M+W Shanghai Co., Ltd.* (美施威爾(上海)有限公司).</p>
2019	<p>We obtained our first contract to supply our products to the Under Floor Air Distribution System with Raised Floor of a desalination plant in Singapore.</p> <p>We obtained our first contract to supply our products for a 11-storey tall mega data centre facility project in Singapore for a leading online social media and social networking service company, whose shares are listed on the NASDAQ Stock Market with a market capitalisation of over USD759 billion as at the Latest Practicable Date, and is ranked within the top 50 companies on the Fortune 500 List.</p>

HISTORY AND DEVELOPMENT

OUR CORPORATE DEVELOPMENT

Our Group

As at the Latest Practicable Date, our Group comprised our Company and the following subsidiaries:-

Name of subsidiary	Principal business activities	Date and place of incorporation	Date of commencement of business	Share capital structure ⁽¹⁾
Channel Micron (BVI)	Investment holding	12 June 2019 in the BVI	12 June 2019	4
Channel Systems (HK)	Investment holding	21 June 2019 in Hong Kong	21 June 2019	2
Channel Systems (Asia)	Design, manufacture and marketing of cleanroom walls and component parts for cleanroom facilities and high technology plants	25 March 1999 in Malaysia	25 March 1999	5,000,000
CSA Technic	Trading of cleanroom walls and ceiling systems and component parts for cleanroom facilities and high technology plants	24 August 2015 in Malaysia	22 March 2017	1,200,000
Channel Systems (Shanghai)	Production and sale of building materials for cleanroom walls and ceiling systems doors, windows and lighting equipment, and provide related after-sales service	18 February 2004 in the PRC	18 February 2004	USD3,850,000
Channel CR Material	Installation and wholesale of building materials for cleanroom walls and ceiling systems doors, windows and lighting equipment, and provide related after-sales service	20 June 2017 in the PRC	20 June 2017	RMB1,000,000
Micron (M)	Cleanroom design and engineering works, trading and installation of cleanroom equipment, component and parts and air filtration system	19 June 1989 in Malaysia	19 June 1989	568,000
Micron Technology	Design and manufacture of fan filters and other equipment for cleanroom facilities and high-technology plants	25 September 1995 in Malaysia	25 September 1995	1,650,000
Micron Cleanroom	Manufacture and trading of cleanroom equipment and design and installation of cleanrooms for commercial and industrial use	12 February 2009 in the Philippines	5 May 2009	9,490,000
Max Micron	Dormant	13 July 2012 in Malaysia	13 July 2012	300,000

Note:

1. The share capital structure of subsidiaries incorporated in the BVI, Hong Kong, Malaysia and the Philippines refer to their respective issued shares and that of subsidiaries incorporated in the PRC refers to their respective registered capital. As at the Latest Practicable Date, all shares or registered capital under the "Share capital structure" column were fully paid-up.

HISTORY AND DEVELOPMENT

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2019. On incorporation, our Company had an authorised share capital of HK\$380,000 divided into 3,800,000 Pre-subdivision Shares of HK\$0.1 each. On the same day, (i) one Pre-subdivision Share was allotted and issued, credited as fully paid to the initial subscriber, and was subsequently transferred to Mr. Ng; and (ii) one Pre-subdivision Share was allotted and issued, credited as fully paid, to each of Mr. Chia, Mr. Law, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Lim, Mr. Loh Wei Loon and Mr. Phang Chee Kin.

During the Reorganisation, an aggregate of 999,990 additional Pre-subdivision Shares were issued by our Company. For details, see the paragraph head “Reorganisation” in this section. On 24 October 2019, our then Shareholders passed an ordinary resolution to approve the Share Subdivision, pursuant to which, every issued and unissued ordinary share of HK\$0.1 par value in our Company was subdivided into 10 ordinary shares of HK\$0.01 par value each. The authorised share capital of our Company became HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and the issued share capital became HK\$100,000 divided into 10,000,000 Shares.

Following the Reorganisation, the Share Subdivision and immediately prior to the Capitalisation Issue and the Global Offering, our Company was held by the following shareholders in the percentages set out below:

Shareholder	Shares	Shareholding
Mr. Ng ^{(1), (2)}	3,091,510	30.9%
Channel Systems Inc. ⁽³⁾	489,570	4.9%
Pacific Panels Inc. ⁽⁴⁾	489,570	4.9%
Mr. Chia ⁽²⁾	1,370,220	13.7%
Mr. Law ^{(1), (2)}	571,810	5.7%
Mr. Lim ^{(1), (2)}	351,210	3.5%
Chang Chin Sia ⁽²⁾	504,950	5.1%
Ng Boon Hock ⁽²⁾	504,950	5.1%
Ms. Yap ^{(1), (2)}	351,920	3.5%
Mr. Chin ^{(1), (2)}	352,970	3.5%
Luah Kok Lam ⁽⁵⁾	108,820	1.1%
Tee Chin Alk ⁽⁵⁾	96,020	1.0%
Loh Wei Loon ⁽²⁾	61,590	0.6%
Phang Chee Kin ⁽²⁾	61,590	0.6%
Lim Huey Wen ⁽⁵⁾	12,120	0.1%
Douglas Frederick Bockmiller ^{(3), (4)}	592,940	5.9%
Lauren Lindquist Bockmiller ⁽³⁾	592,940	5.9%
Peter Wayne Borris ⁽⁴⁾	395,300	4.0%
TOTAL	10,000,000	100.0%

HISTORY AND DEVELOPMENT

Notes:

- (1) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see “Directors and senior management”.
- (2) Each of Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin is our Controlling Shareholder and has executed the AIC Confirmation.
- (3) As at the Latest Practicable Date, Channel Systems Inc. was owned by Ms. Lauren Lindquist Bockmiller and Mr. Douglas Frederick Bockmiller as to 55.0% and 45.0%, respectively.
- (4) As at the Latest Practicable Date, Pacific Panels Inc. was owned by Mr. Douglas Frederick Bockmiller as to 50.0% and Mr. Peter Wayne Borris as to 50.0%.
- (5) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.

Channel Micron (BVI)

Channel Micron (BVI) was incorporated in the BVI as a company with limited liability on 12 June 2019. On incorporation, Channel Micron (BVI) was authorised to issue a maximum of 50,000 ordinary shares without par value, of which one share was allotted and issued to our Company as the initial subscriber.

During the Reorganisation, an aggregate of three additional shares in Channel Micron (BVI) were issued to our Company. For further details, see the paragraph headed “Reorganisation” in this section.

Channel Systems (HK)

Channel Systems (HK) was incorporated in Hong Kong as a company with limited liability on 21 June 2019. On incorporation, one ordinary share was allotted and issued to Channel Micron (BVI) as the initial subscriber.

During the Reorganisation, one additional share in Channel Systems (HK) was issued to Channel Micron (BVI). For further details, see the paragraph headed “Reorganisation” in this section.

Channel Systems (Asia)

Channel Systems (Asia) was incorporated in Malaysia as a company with limited liability on 25 March 1999. On incorporation, the issued share capital was RM2.0 divided into 2 shares of RM1.0 each, of which one share was allotted and issued to each of Mr. Ng and Mr. Chang Chin Sia. On 29 June 1999, Micron (M) Sdn. Bhd, Pacific Panels Inc. and Channel Systems Inc. entered into a joint venture agreement in respect of Channel Systems (Asia) and pursuant to which, the parties agreed that Channel Systems (Asia) should be held by Micron (M) as to 50.0%, Pacific Panels Inc. as to 25.0% and Channel Systems Inc. as to 25.0%.

On 14 October 1999, the issued share capital of Channel Systems (Asia) was increased to RM760,000 by allotment and issuance of 379,998 shares to Micron (M), 190,000 shares to Channel Systems Inc. and 190,000 shares to Pacific Panels Inc. On 28 March 2013, the issued share capital of Channel Systems (Asia) was further increased to RM5,000,000 divided into 5,000,000 shares by allotting and issuance of 1,971,600 shares to Micron (M), 985,800 shares to Channel Systems Inc., 985,800 shares to Pacific Panels Inc., 195,208 shares to Mr. Ng, 59,974 shares to Mr. Law, 33,529 shares to Mr. Lim and 8,089 shares to Mr. Lim Huey Wen.

HISTORY AND DEVELOPMENT

As at 1 January 2016, shareholding of Channel Systems (Asia) was as follows:

Shareholder	Shares	Shareholding
Micron (M) ⁽¹⁾	2,000,000	40.0%
Channel Systems Inc. ⁽²⁾	1,000,000	20.0%
Pacific Panels Inc. ⁽³⁾	1,000,000	20.0%
Mr. Ng ⁽⁴⁾	455,198	9.1%
Mr. Law ⁽⁴⁾	200,024	4.0%
Mr. Lim ⁽⁴⁾	134,989	2.7%
Luah Kok Lam ⁽⁵⁾	85,000	1.7%
Tee Chin Alk ⁽⁵⁾	75,000	1.5%
Ms. Yap ⁽⁴⁾	40,250	0.8%
Lim Huey Wen ⁽⁵⁾	9,539	0.2%
	<u>5,000,000</u>	<u>100.0%</u>

Notes:

- (1) For shareholding of Micron (M), see paragraphs head "Micron (M)" in this section.
- (2) Channel Systems Inc. was then owned by Ms. Lauren Lindquist Bockmiller and Mr. Douglas Frederick Bockmiller as to 55.0% and 45.0%, respectively.
- (3) Pacific Panels Inc. was then owned by Mr. Douglas Frederick Bockmiller and Mr. Peter Wayne Borris as to 50.0% and 50.0%, respectively.
- (4) Each of Mr. Ng, Mr. Law, Mr. Lim and Ms. Yap is our executive Director and our Controlling Shareholder. For their biographical details, see "Directors and senior management".
- (5) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.

On 28 December 2016, 801,267 shares, 510,845 shares, 163,944 shares, 163,944 shares, 100,000 shares, 85,000 shares, 80,000 shares, 55,000 shares, 20,000 shares, and 20,000 shares in Channel Systems (Asia) were transferred by Micron (M) to Mr. Ng, Mr. Chia, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Mr. Chin, Mr. Law, Ms. Yap, Mr. Lim, Mr. Loh Wei Loon and Mr. Phang Chee Kin, respectively, at the consideration of RM1.0 per share. The consideration was determined with reference to the paid up capital of Channel Systems (Asia). The purpose of the above share transfers was to reflect the effective beneficial interest of the individual shareholders in Channel Systems (Asia). Upon completion of the above transfers and immediately prior to the Reorganisation, the shareholding of Channel Systems (Asia) was as follows:

Shareholder	Shares	Shareholding (%)
Mr. Ng ^{(1), (2)}	1,256,465	25.1
Channel Systems Inc. ⁽³⁾	1,000,000	20.0
Pacific Panels Inc. ⁽⁴⁾	1,000,000	20.0
Mr. Chia ⁽²⁾	510,845	10.2
Mr. Law ^{(1), (2)}	285,024	5.7
Mr. Lim ^{(1), (2)}	189,989	3.8
Chang Chin Sia ⁽²⁾	163,944	3.3
Ng Boon Hock ⁽²⁾	163,944	3.3
Ms. Yap ^{(1), (2)}	120,250	2.4
Mr. Chin ^{(1), (2)}	100,000	2.0
Luah Kok Lam	85,000	1.7
Tee Chin Alk ⁽⁵⁾	75,000	1.5
Loh Wei Loon ⁽²⁾	20,000	0.4
Phang Chee Kin ⁽²⁾	20,000	0.4
Lim Huey Wen ⁽⁵⁾	9,539	0.2
	<u>5,000,000</u>	<u>100.0</u>

HISTORY AND DEVELOPMENT

Notes:

- (1) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see “Directors and senior management”.
- (2) Each of Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin is our Controlling Shareholder and has executed the AIC Confirmation.
- (3) Channel Systems Inc. was then owned by Ms. Lauren Lindquist Bockmiller and Mr. Douglas Frederick Bockmiller as to 55.0% and 45.0%, respectively.
- (4) Pacific Panels Inc. was then owned by Mr. Douglas Frederick Bockmiller and Mr. Peter Wayne Borris as to 50.0% and 50.0%, respectively.
- (5) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.

During the reorganisation on 4 July 2019, all the shareholders of Channel Systems (Asia) signed transfer forms to transfer all their shares in Channel Systems (Asia) to Channel Micron (BVI) in consideration of an aggregate of 244,786 Pre-subdivision Shares allotted and issued to them. For further details of the Reorganisation, see the paragraph headed “Reorganisation” in this section. As at the Latest Practicable Date, Channel Systems (Asia) was a directly wholly-owned subsidiary of our Company and its share capital has been fully paid up.

CSA Technic

CSA Technic was incorporated in Malaysia as a company with limited liability on 24 August 2015. Its former name was Sum System (RE) Sdn. Bhd. and changed to its current name on 7 March 2017. On incorporation, the issued share capital was RM2.0 divided into 2 shares of RM1 each, of which one share was allotted and issued to each of Mr. Ng and Mr. Chin.

On 31 May 2017, each of Mr. Ng and Mr. Chin transferred one share to Channel Systems (Asia) as CSA Technic engaged in the same business as the Group, at the consideration of RM1.0 per share. The consideration was determined with reference to the paid up capital of CSA Technic. CSA Technic became wholly-owned by Channel Systems (Asia). On 28 September 2017, the issued share capital of CSA Technic was increased to RM300,000 divided in 300,000 shares by allotment and issuance of 299,998 shares to Channel Systems (Asia). Upon completion of the Reorganisation, CSA Technic became an indirectly wholly-owned subsidiary of our Company and as at the Latest Practicable Date, its share capital had been fully paid up.

On 21 August 2020, the issued share capital was further increased to 1,200,000 shares when 900,000 shares was allotted and issued to Channel Systems (Asia).

Channel Systems (Shanghai)

Channel Systems (Shanghai) was established in the PRC as a company with limited liability on 18 February 2004. Upon establishment, Channel Systems (Shanghai) had an initial registered capital of USD140,000, which was contributed by Channel Systems (Asia).

HISTORY AND DEVELOPMENT

As at 1 January 2016, the entire registered capital of Channel Systems (Shanghai) of USD350,000 was owned by Channel Systems (Asia). On 28 October 2016, Channel Systems (Asia) transferred all its equity interest in Channel Systems (Shanghai) to the following persons at the consideration set out below:

Transferee	Equity Interest (USD)	(%)	Consideration (USD)
Mr. Ng	87,950	25.1	87,950
Douglas Frederick Bockmiller	52,500	15.0	52,500
Lauren Lindquist Bockmiller	52,500	15.0	52,500
Mr. Chia	35,760	10.2	35,760
Peter Wayne Borris	35,000	10.0	35,000
Mr. Law	19,950	5.7	19,950
Mr. Lim	13,300	3.8	13,300
Chang Chin Sia	11,480	3.3	11,480
Ng Boon Hock	11,480	3.3	11,480
Ms. Yap	8,420	2.4	8,420
Mr. Chin	7,000	2.0	7,000
Luah Kok Lam	5,950	1.7	5,950
Tee Chin Alk	5,250	1.5	5,250
Loh Wei Loon	1,400	0.4	1,400
Phang Chee Kin	1,400	0.4	1,400
Lim Huey Wen	660	0.2	660
Total	<u>350,000</u>	<u>100.0</u>	<u>350,000</u>

The consideration was determined as the paid up capital of Channel Systems (Shanghai). The purpose of the above share transfers was to reflect the effective beneficial interest of the individual shareholders in Channel Systems (Shanghai). The registered capital of Channel Systems (Shanghai) was resolved to be increased to USD3.85 million on 16 May 2017 and the above transferees contributed additional amount of registered capital in proportion to their shareholding in Channel Systems (Shanghai).

As part of the Reorganisation, on 19 August 2019, our Company acquired the entire equity interest of Channel Systems (Shanghai) from the then shareholders by allotting and issuing an aggregate of 395,288 Pre-subdivision Shares to them. For further details of the transfers, see the paragraph headed “Reorganisation” in this section. Upon completion of such transfers, Channel Systems (Shanghai) became an indirectly wholly-owned subsidiary of our Company. As at the Latest Practicable Date, the registered capital of Channel Systems (Shanghai) was fully paid up.

Channel CR Material

Channel CR Material was established in the PRC as a company with limited liability on 20 June 2017. Upon establishment, Channel CR Material had an initial registered capital of RMB1 million, which was contributed by Channel Systems (Shanghai) as to 90.0%, Mr. Khor Why Ping as to 3.5%, Mr. Zhang Kaihua as to 3.5%, and Mr. Hartono Liu Chan Ong as to 3.0%. Mr. Khor Why Ping, Mr. Zhang Kaihua and Mr. Hartono Liu Chan Ong were then employees of our Group and the equity interest held by them were given to them at nil consideration as performance incentives. Such equity interest shall be returned to Channel Systems (Shanghai) if service provided by the relevant employee is terminated without consent from Channel Systems (Shanghai). On 1 August 2018, Channel Systems (Shanghai) and Mr. Zhang Kaihua entered into an equity transfer agreement to return the 3.5% equity interest in Channel CR Material to Channel Systems (Shanghai) at nil consideration as Mr. Zhang Kaihua resigned from his position. Upon completion of this transfer and up to the Latest Practicable Date, Channel CR Material was owned by us through Channel Systems (Shanghai) as to 93.5%, Mr. Khor Why Ping as to 3.5% and Mr. Hartono Liu Chan Ong as to 3.0%.

HISTORY AND DEVELOPMENT

Micron (M)

Micron (M) was incorporated in Malaysia as a company with limited liability on 19 June 1989. On incorporation, the issued share capital was RM2.0 divided into 2 shares of RM1.0 each, of which one share was allotted and issued to each of Mr. Chia and Mr. Dua Kok Yeow, who is an Independent Third Party of our Company. The issued share capital of Micron (M) was increased to RM568,000 divided into 568,000 shares through various allotments and issues of shares from 1993 to 2000.

As at 1 January 2016, the share capital of Micron (M) was RM568,000 divided into 568,000 shares, and the shareholdings of Micron (M) was as follows:

Shareholder	Shares	Shareholding (%)
Mr. Ng ^{(1), (2)}	227,560	40.1
Mr. Chia ⁽²⁾	145,080	25.5
Chang Chin Sia ⁽²⁾	46,560	8.2
Ng Boon Hock ⁽²⁾	46,560	8.2
Mr. Chin ^{(1), (2)}	28,400	5.0
Mr. Law ^{(1), (2)}	24,140	4.3
Ms. Yap ^{(1), (2)}	22,720	4.0
Mr. Lim ^{(1), (2)}	15,620	2.7
Loh Wei Loon ⁽²⁾	5,680	1.0
Phang Chee Kin ⁽²⁾	5,680	1.0
Total	<u>568,000</u>	<u>100.0</u>

Notes:

- (1) Each of Mr. Ng, Mr. Chin, Mr. Law, Mr. Lim and Ms. Yap is our executive Director. For their biographical details, see "Directors and Senior Management".
- (2) Each of Mr. Ng, Mr. Chia, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Mr. Chin, Mr. Law, Ms. Yap, Mr. Lim, Mr. Loh Wei Loon and Mr. Phang Chee Kin is our Controlling Shareholder.

HISTORY AND DEVELOPMENT

On 27 September 2018, Mr. Chia disposed of 6,488 shares, 7,100 shares, 8,520 shares, 8,520 shares and 1,420 shares in Micron (M) to Mr. Ng, Mr. Chin, Mr. Law, Ms. Yap and Mr. Lim, respectively, at the consideration of RM1.0 per share. The consideration was determined by the parties with reference to the then net asset value of Micron (M). Upon completion of above disposal, the shareholdings of Micron (M) was as follows:

Shareholder	Shares	Shareholding (%)
Mr. Ng ^{(1), (2)}	234,048	41.2
Mr. Chia ⁽²⁾	113,032	19.9
Chang Chin Sia ⁽²⁾	46,560	8.2
Ng Boon Hock ⁽²⁾	46,560	8.2
Mr. Chin ^{(1), (2)}	35,500	6.3
Mr. Law ^{(1), (2)}	32,660	5.7
Ms. Yap ^{(1), (2)}	31,240	5.5
Mr. Lim ^{(1), (2)}	17,040	3.0
Loh Wei Loon ⁽²⁾	5,680	1.0
Phang Chee Kin ⁽²⁾	5,680	1.0
Total	<u>568,000</u>	<u>100.0</u>

Notes:

- (1) Each of Mr. Ng, Mr. Chin, Mr. Law, Mr. Lim and Ms. Yap is our executive Director. For their biographical details, see "Directors and Senior Management".
- (2) Each of Mr. Ng, Mr. Chia, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Mr. Chin, Mr. Law, Ms. Yap, Mr. Lim, Mr. Loh Wei Loon and Mr. Phang Chee Kin is our Controlling Shareholder and has executed the AIC Confirmation.

During the Reorganisation on 4 July 2019, all the shareholders of Micron (M) signed transfer forms to transfer all their shares in Micron (M) to our Company in consideration of an aggregate of 359,916 Pre-subdivision Shares allotted and issued to them. For further details of the Reorganisation, see the paragraph headed "Reorganisation" in this section. As at the Latest Practicable Date, Micron (M) is a wholly-owned subsidiary of our company and its share capital has been fully paid up.

Micron Technology

Micron Technology was incorporated in Malaysia as a company with limited liability on 25 September 1995. On incorporation, the issued share capital was RM2.0 divided into 2 shares of RM1.0 each, of which one share was allotted and issued to each of Mr. Chia and Mr. Tee Yee Loh, who is an Independent Third Party of our Company. The issued share capital of Micron Technology was increased to RM1,650,000 divided into 1,650,000 shares through various allotments and issues of shares from 2002 to 2007. In 2012, Micron Technology raised shareholders' funds to more than RM2.5 million.

As at 1 January 2016, the issued share capital of Micron Technology was RM1,650,000 divided into 1,650,000 shares, and all issued shares were wholly-owned by Micron (M).

Upon completion of the Reorganisation, Micron Technology became an indirectly wholly-owned subsidiary of our Company. For details of the Reorganisation, see "Reorganisation" below in this section. As at the Latest Practicable Date, share capital of Micron Technology had been fully paid up.

HISTORY AND DEVELOPMENT

Max Micron

Max Micron was incorporated in Malaysia as a company with limited liability on 13 July 2012. It was a dormant company as at the Latest Practicable Date. It was formerly known as Milleon Micron Precision Sdn.Bhd. until it changed to its current name on 19 August 2016. On incorporation, the issued share capital was RM2.0 divided into 2 shares of RM1.0 each, of which one share was allotted and issued to each of Mr. Ng and Mr. Tee Yee Loh, who is an Independent Third Party of our Company.

The issued share capital of Max Micron was increased to RM300,000 divided into 300,000 shares through allotment and issuance of 299,998 shares on 12 July 2013.

As at 1 January 2016, the issued share capital of Max Micron was RM300,000 divided into 300,000 shares and was owned by Micron (M) as to 41.0%, Milleon Extruda Sdn. Bhd. as to 25.0%, Visbis (M) Sdn. Bhd. as to 14.0%, Mr. Ng as to 10.0% and Mr. Yong Kok Hoe as to 10.0%. Visbis (M) Sdn. Bhd. was then owned by Mr. Chin and Ms. Ng Sook Yen in equal share. Mr. Yong Kok Hoe was an employee of Max Micron at that time. On 31 May 2016, Milleon Extruder Sdn. Bhd. ceased to be a shareholder of Max Micron when it transferred 41,000 shares to Micron (M), 10,000 shares to Mr. Ng, 14,000 shares to Visbis (M) Sdn. Bhd. and 10,000 shares to Mr. Yong Kok Hoe at the consideration of RM1.0 per share, which was determined after arm's length negotiation between the parties and with reference to the then paid up capital of Max Micron. On 12 August 2016, Mr. Yong Kok Hoe ceased to be a shareholder of Max Micron when it transferred 25,231 shares to Micron (M), 6,154 shares to Mr. Ng and 8,615 shares to Visbis (M) Sdn. Bhd. at the consideration of RM1.0 per share, which was determined after arm's length negotiation between the parties and with reference to the then paid up capital of Max Micron. On 23 November 2018, Visbis (M) Sdn. Bhd. transferred all its shares in Max Micron to Mr. Chin at the consideration of RM1.0 per share, which was determined with reference to the then paid up capital of Max Micron.

During the Reorganisation on 3 July 2019, Mr. Chin and Mr. Ng signed transfer forms to transfer all their interest in Max Micron to Micron (M) in consideration of an aggregate of RM1.0, which was determined with reference to the paid up capital of Max Micron. Max Micron became an indirectly wholly-owned subsidiary of Micron (M). For further details of the Reorganisation, see the paragraph headed "Reorganisation" in this section. As at the Latest Practicable Date, the share capital of Max Micron had been fully paid up.

Micron Cleanroom

Micron Cleanroom was incorporated in the Philippines as a company with limited liability on 12 February 2009. On incorporation, the share capital of Micron Cleanroom was Peso 9,490,000.0 divided into 9,490,000 shares of Peso 1.0 each, of which 9,485,000 shares were issued to Micron (M) and 1,000 shares were allocated and issued to each of Mr. Ng, Mr. Chin, Mr. Chang Chin Sia, Ms. Yap and Mr. F. Philip A. Pineda. Mr. F. Philip A. Pineda was a local shareholder as required under the laws and regulations of the Philippines.

On 24 February 2014, Mr. Chang Chin Sia transferred his 1,000 shares to Mr. Tee Yee Loh (who is an independent third party of our Company) at the consideration of Peso 1,000 which was determined based on the paid up share capital of Micron Cleanroom. On 14 April 2016, Mr. Tee Yee Loh transferred his 1,000 shares to Mr. Chia at the consideration of Peso 1,000 which was determined based on the paid up share capital of Micron Cleanroom.

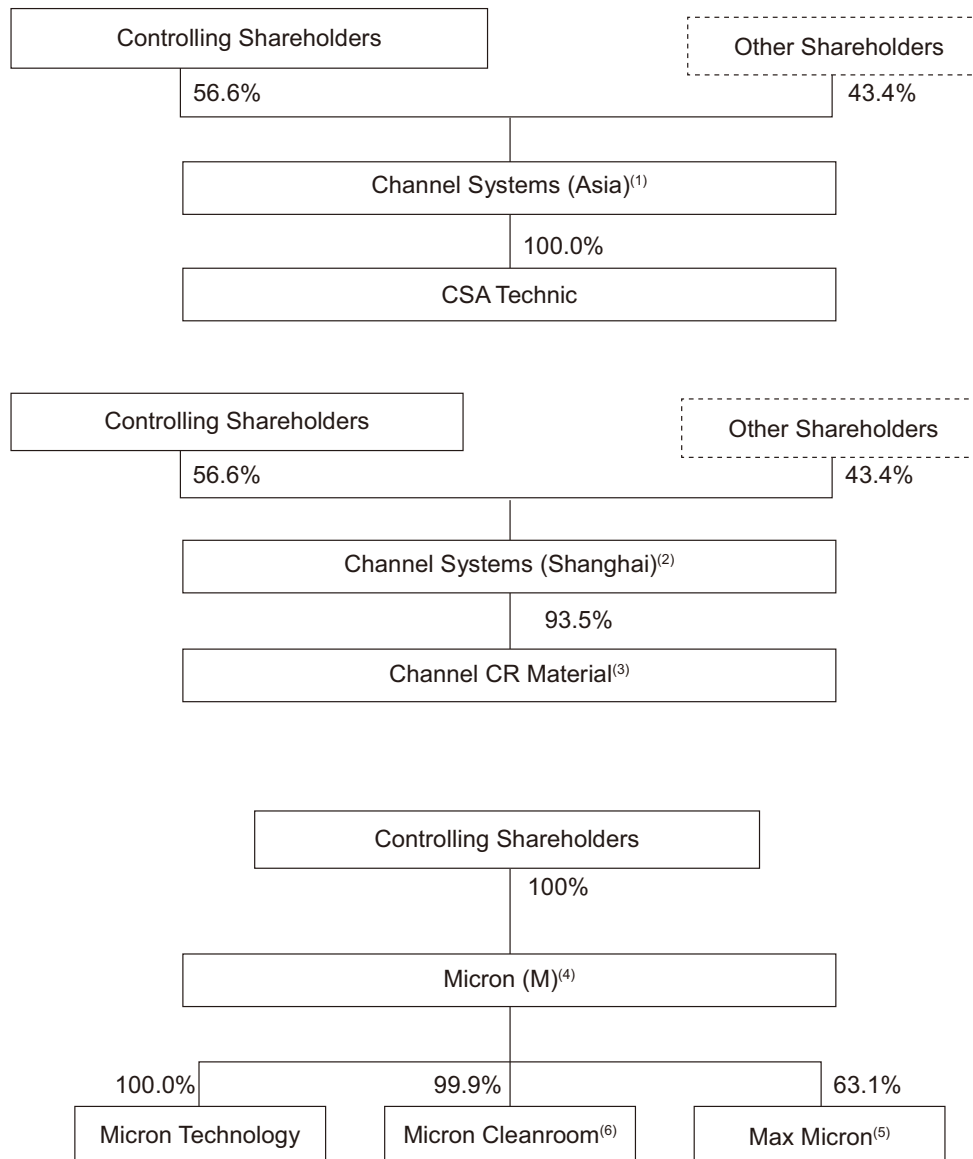
Upon completion of the Reorganisation, Micron Cleanroom became an indirectly non-wholly owned subsidiary of our Company. For further details of the Reorganisation, see the paragraph headed "Reorganisation" in this section. As at the Latest Practicable Date, share capital of Micron Cleanroom had been fully paid up.

HISTORY AND DEVELOPMENT

REORGANISATION

Corporate and shareholding structure immediately prior to the Reorganisation

Set out below is the shareholding and corporate structure of the companies comprising our Group immediately prior to the implementation of the Reorganisation:



HISTORY AND DEVELOPMENT

Notes:

- (1) The shareholding of Channel Systems (Asia) is set out below:

Name	Shareholding (%)
Mr. Ng ^{(c), (d)}	25.1
Channel Systems Inc. ^(a)	20.0
Pacific Panels Inc. ^(b)	20.0
Mr. Chia ^(c)	10.2
Mr. Law ^{(c), (d)}	5.7
Mr. Lim ^{(c), (d)}	3.8
Chang Chin Sia ^(c)	3.3
Ng Boon Hock ^(c)	3.3
Ms. Yap ^{(c), (d)}	2.4
Mr. Chin ^{(c), (d)}	2.0
Luah Kok Lam ^(e)	1.7
Tee Chin Alk ^(e)	1.5
Loh Wei Loon ^(c)	0.4
Phang Chee Kin ^(c)	0.4
Lim Huey Wen ^(e)	0.2
Total	100.0

Notes:

- (a) Channel Systems Inc. was owned as to 45.0% by Mr. Douglas Frederick Bockmiller and 55.0% by Ms. Lauren Lindquist Bockmiller.
- (b) Pacific Panels Inc. was owned as to 50.0% by Mr. Douglas Frederick Bockmiller and 50.0% by Mr. Peter Wayne Borris.
- (c) Each of Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin is our Controlling Shareholder and has executed the AIC Confirmation.
- (d) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see "Directors and senior management" section.
- (e) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.
- (2) The shareholding of Channel Systems (Shanghai) is set out below:

Name	Shareholding (%)
Mr. Ng ^(a)	25.1
Douglas Frederick Bockmiller	15.0
Lauren Lindquist Bockmiller	15.0
Mr. Chia ^(a)	10.2
Peter Wayne Borris	10.0
Mr. Law ^{(a), (b)}	5.7
Mr. Lim ^{(a), (b)}	3.8
Chang Chin Sia ^(a)	3.3
Ng Boon Hock ^(a)	3.3
Ms. Yap ^{(a), (b)}	2.4
Mr. Chin ^{(a), (b)}	2.0
Luah Kok Lam	1.7
Tee Chin Alk ^(c)	1.5
Loh Wei Loon ^(a)	0.4
Phang Chee Kin ^(a)	0.4
Lim Huey Wen ^(c)	0.2
Total	100.0

Notes:

- (a) Each of Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin is our Controlling Shareholder and has executed the AIC Confirmation.
- (b) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see "Directors and senior management" section.
- (c) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.
- (3) Channel CR Material was owned as to 93.5% by Channel Systems (Shanghai), 3.5% by Mr. Khor Why Ping and 3.0% by Mr. Hartono Liu Chan Ong. Both Mr. Khor Why Ping and Mr. Hartono Liu Chan Ong are members of the senior management and Independent Third Parties of our Company.

HISTORY AND DEVELOPMENT

- (4) The shareholding in Micron (M) is set out below:

Name	Shareholding (%)
Mr. Ng ^{(a), (b)}	41.2
Mr. Chia ^(a)	19.9
Chang Chin Sia ^(a)	8.2
Ng Boon Hock ^(a)	8.2
Mr. Chin ^{(a), (b)}	6.3
Mr. Law ^{(a), (b)}	5.7
Ms. Yap ^{(a), (b)}	5.5
Mr. Lim ^{(a), (b)}	3.0
Loh Wei Loon ^(a)	1.0
Phang Chee Kin ^(a)	1.0
Total	<u>100.0</u>

- (a) Each of Mr. Ng, Mr. Chia, Chang Chin Sia, Ng Boon Hock, Mr. Law, Mr. Lim, Mr. Chin, Ms. Yap, Mr. Loh Wei Loon and Mr. Phang Chee Kin is one of our Controlling Shareholders and has executed the AIC Confirmation.
- (b) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see "Directors and senior management".
- (5) Max Micron was owned as to 63.1% by Micron (M), 21.5% by Mr. Chin and 15.4% by Mr. Ng and become wholly-owned by Micron(M) upon completion of the Reorganisation.
- (6) Micron Cleanroom had a total of 9,490,000 issued shares, among which, 9,485,000 shares were owned by Micron (M) and 1,000 shares were owned by each of Mr. Ng, Mr. Chin, Ms. Yap, Mr. Chia and Mr. F. Philip A. Pineda. Mr. F. Philip A. Pineda is a local shareholder required under the laws and regulations of the Philippines and an Independent Third Party of our Company.

Reorganisation

In preparation for the Listing our Group underwent the Reorganisation. The major steps of the Reorganisation are summarised below:

Incorporation of the Company

Our Company was incorporated with limited liability in the Cayman Islands on 11 June 2019 with an authorised share capital of HK\$380,000 divided into 3,800,000 Pre-subdivision Shares. On the same day, (i) one Pre-subdivision Share was allotted and issued, credited as fully-paid, to the initial subscriber and transferred to Mr. Ng.; and (ii) each of Mr. Chia, Mr. Law, Mr. Lim, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin were allotted and issued one Pre-subdivision Share.

Incorporation of Channel Micron (BVI)

Channel Micron (BVI) was incorporated in the BVI on 12 June 2019. One subscriber share in Channel Micron (BVI) (representing its entire issued share capital) was allotted and issued to our Company on the same day.

Incorporation of Channel Systems (HK)

Channel Systems (HK) was incorporated in Hong Kong on 21 June 2019. One subscriber share in Channel Systems (HK) (representing its entire issued share capital) was allotted and issued to Channel Micron (BVI) on the same day.

Acquisition of 36.9% of issued share capital in Max Micron

On 3 July 2019, Mr. Chin signed a transfer form to transfer his 64,615 shares in Max Micron and Mr. Ng signed a transfer form to transfer his 46,154 shares in Max Micron to Micron (M) in consideration of RM1.0 per share. Upon the completion of the transfer, Max Micron became a wholly-owned subsidiary of Micron (M).

HISTORY AND DEVELOPMENT

Acquisition of Channel Systems (Asia)

On 4 July 2019, the following shareholders signed transfer forms to transfer all shares in Channel Systems (Asia) to Channel Micron (BVI). On 5 July 2019, the following consideration Pre-subdivision Shares were allotted and issued to the transferors by our Company:

Transferor	Number of shares in Channel Systems (Asia) transferred to our Company	Number of consideration Pre-subdivision Shares issued to the transferor
Mr. Ng	1,256,465	61,513
Channel Systems Inc.	1,000,000	48,957
Pacific Panels Inc.	1,000,000	48,957
Mr. Chia	510,845	25,010
Mr. Law	285,024	13,954
Mr. Lim	189,989	9,301
Chang Chin Sia	163,944	8,026
Ng Boon Hock	163,944	8,026
Ms. Yap	120,250	5,887
Mr. Chin	100,000	4,896
Luah Kok Lam	85,000	4,162
Tee Chin Alk	75,000	3,672
Loh Wei Loon	20,000	979
Phang Chee Kin	20,000	979
Lim Huey Wen	9,539	467
Total	5,000,000	244,786

In consideration of our Company directing that all the shares in Channel Systems (Asia) be transferred to Channel Micron (BVI), Channel Micron (BVI) allotted and issued one share to our Company.

Acquisition of Micron (M)

On 4 July 2019, the following shareholders signed transfer forms to transfer all issued shares in Micron (M) to Channel Micron (BVI). On 5 July 2019, the following consideration Pre-subdivision Shares were allotted and issued to the transferors by our Company:

Transferor	Number of shares in Micron (M) transferred	Number of consideration Pre-subdivision Shares issued to the transferor
Mr. Ng	234,048	148,306
Mr. Chia	113,032	71,623
Chang Chin Sia	46,560	29,503
Ng Boon Hock	46,560	29,503
Mr. Chin	35,500	22,495
Mr. Law	32,660	20,695
Mr. Lim	17,040	10,798
Ms. Yap	31,240	19,795
Loh Wei Loon	5,680	3,599
Phang Chee Kin	5,680	3,599
Total	568,000	359,916

HISTORY AND DEVELOPMENT

In consideration of our Company directing that all the shares in Micron (M) be transferred to Channel Micron (BVI), Channel Micron (BVI) allotted and issued one share to our Company.

Acquisition of Channel Systems (Shanghai)

On 19 August 2019, the entire registered capital in Channel Systems (Shanghai) was transferred to Channel Micron (HK) by the following shareholders. On 21 August 2019, the following consideration Pre-subdivision Shares were allotted and issued to the transferors by our Company:

Transferor	Registered capital in Channel Systems (Shanghai) transferred (USD)	Number of consideration Pre-subdivision Shares issued to the transferor
Mr. Ng	967,450	99,331
Douglas Frederick Bockmiller	577,500	59,294
Lauren Lindquist Bockmiller	577,500	59,294
Mr. Chia	393,360	40,388
Peter Wayne Borris	385,000	39,530
Mr. Law	219,450	22,531
Mr. Lim	146,300	15,021
Chang Chin Sia	126,280	12,965
Ng Boon Hock	126,280	12,965
Ms. Yap	92,620	9,509
Mr. Chin	77,000	7,905
Luah Kok Lam	65,450	6,720
Tee Chin Alk	57,750	5,930
Loh Wei Loon	15,400	1,580
Phang Chee Kin	15,400	1,580
Lim Huey Wen	7,260	745
Total	<u>3,850,000</u>	<u>395,288</u>

In consideration of our Company directing that the entire registered capital of Channel Systems (Shanghai) be transferred to Channel Systems (HK), Channel Systems (HK) allotted and issued one share to Channel Micron (BVI), and Channel Micron (BVI) allotted and issued one share to our Company.

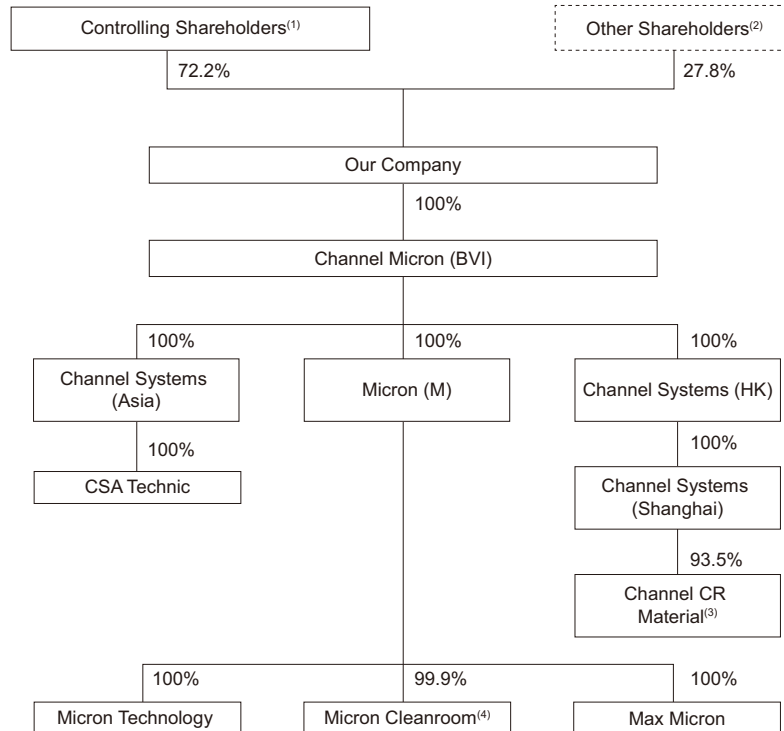
Our Malaysia Legal Advisers, PRC Legal Advisers and Philippines Legal Advisers advised that each of the steps in our Reorganisation concerning our subsidiaries in Malaysia, the PRC and the Philippines has been properly and legally completed and settled in accordance with the applicable laws and regulations of the relevant jurisdiction, all necessary governmental approvals under applicable laws and regulations of the relevant jurisdiction have been obtained and the Reorganisation has complied with applicable laws and regulations.

Save as disclosed in this section, we had not carried out any major acquisitions, disposals and mergers during the Track Record Period.

HISTORY AND DEVELOPMENT

Corporate and shareholding structure immediately following the Reorganisation

The following diagram sets forth our corporate and shareholding structure immediately following the Reorganisation as set out above:



Notes:

(1) The shareholding in our Company held by our Controlling Shareholders^(b) is set out below:

Name	Shareholding
Mr. Ng ^(a)	30.9%
Mr. Chia	13.7%
Mr. Law ^(a)	5.7%
Chang Chin Sia	5.1%
Ng Boon Hock	5.1%
Mr. Lim ^(a)	3.5%
Ms. Yap ^(a)	3.5%
Mr. Chin ^(a)	3.5%
Loh Wei Loon	0.6%
Phang Chee Kin	0.6%
	72.2%

(a) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see "Directors and Senior Management".

(b) Each of our Controlling Shareholders has executed the AIC Confirmation.

HISTORY AND DEVELOPMENT

- (2) Names and shareholdings in our Company held by our Shareholders other than the Controlling Shareholders are set out below:

Name	Shareholding
Douglas Frederick Bockmiller ^{(a)(b)}	5.9%
Lauren Lindquist Bockmiller ^(a)	5.9%
Channel Systems Inc. ^(a)	4.9%
Pacific Panels Inc. ^(b)	4.9%
Peter Wayne Borris ^(b)	4.0%
Luah Kok Lam ^(c)	1.1%
Tee Chin Alk ^(c)	1.0%
Lim Huey Wen ^(c)	0.1%
	<hr/>
	27.8%

- (a) Channel Systems Inc. is owned as to 45.0% by Douglas Frederick Bockmiller and 55.0% by Lauren Lindquist Bockmiller.
- (b) Pacific Panels Inc. is owned as to 50.0% by Douglas Frederick Bockmiller and 50.0% by Peter Wayne Borris.
- (c) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.
- (3) Channel CR Material is owned as to 93.5% by Channel Systems (Shanghai), 3.5% by Mr. Khor Why Ping and 3.0% by Mr. Hartono Liu Chan Ong. Both Mr. Khor Why Ping and Mr. Hartono Liu Chan Ong are members of the senior management and Independent Third Parties of our Company.
- (4) Micron Cleanroom has a total of 9,490,000 issued shares, of which 9,485,000 shares were owned by Micron (M) and 1,000 shares were owned by each of Mr. Ng, Mr. Chin, Ms. Yap, Mr. Chia and Mr. F. Philip A. Pineda. Mr. F. Philip A. Pineda is a local shareholder required under the laws and regulations of the Philippines and an independent third party of our Company.

SHARE SUBDIVISION

On 24 October 2019, our then Shareholders passed an ordinary resolution to approve the Share Subdivision, pursuant to which, every issued and unissued ordinary share of HK\$0.1 par value in our Company was subdivided into 10 ordinary shares of HK\$0.01 par value each. The authorised share capital of our Company became HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and the issued share capital became HK\$100,000 divided into 10,000,000 Shares. The shareholding percentages of the then Shareholders remain unchanged after the Share Subdivision.

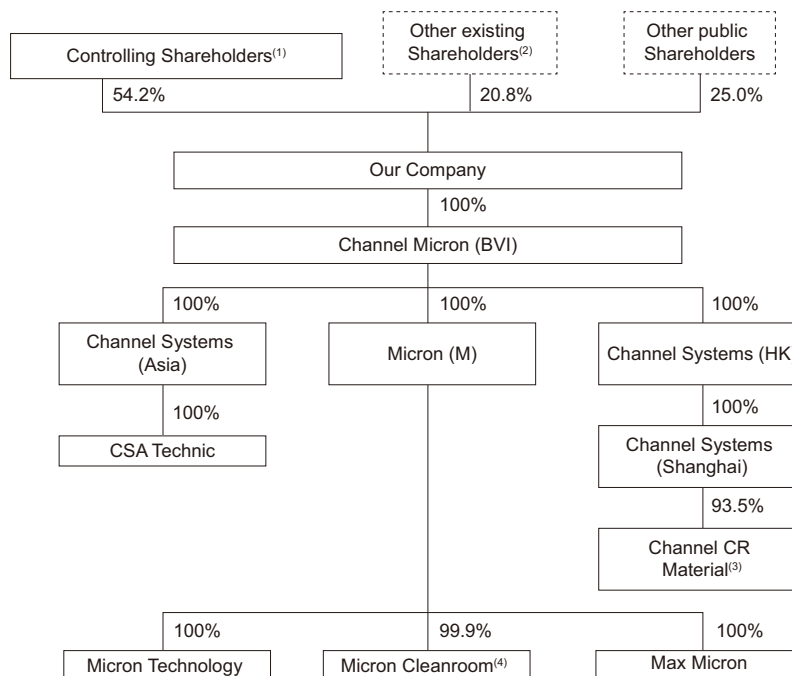
CORPORATE AND SHAREHOLDING STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE GLOBAL OFFERING AND CAPITALISATION ISSUE

Conditional upon the Stock Exchange granting the approval for the listing of and permission to deal in the Shares on the Main Board of the Stock Exchange, our Company will offer 350,000,000 Shares, being 25.0% of total issued share capital of our Company (as enlarged by the Shares offered under the Global Offering and issued under the Capitalisation Issue) for subscription.

HISTORY AND DEVELOPMENT

Conditional upon the share premium account of our Company being credited with the proceeds of the Global Offering, an appropriate sum will be capitalised and applied in paying up in full at par such number of shares in our Company to be allotted and issued to the then existing shareholders of our Company so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute 75.0% of the issued share capital of our Company.

The following diagram sets forth our corporate and shareholding structure immediately following the completion of the Global Offering and the Capitalisation Issue:



Notes:

(1) The shareholding in our Company held by our Controlling Shareholders^(b) is set out below:

Name	Shareholding
Mr. Ng ^(a)	23.2%
Mr. Chia	10.3%
Mr. Law ^(a)	4.3%
Chang Chin Sia	3.8%
Ng Boon Hock	3.8%
Mr. Lim ^(a)	2.6%
Ms. Yap ^(a)	2.6%
Mr. Chin ^(a)	2.6%
Loh Wei Loon	0.5%
Phang Chee Kin	0.5%
	54.2%

(a) Each of Mr. Ng, Mr. Law, Mr. Lim, Mr. Chin and Ms. Yap is our executive Director. For their biographical details, see “Directors and Senior Management”.

(b) Each of our Controlling Shareholders has executed the AIC Confirmation.

HISTORY AND DEVELOPMENT

- (2) The shareholding in our Company held by our Shareholders other than the Controlling Shareholders is set out below:

Name	Shareholding
Douglas Frederick Bockmiller ^{(a)(b)}	4.4%
Lauren Lindquist Bockmiller ^(a)	4.4%
Channel Systems Inc. ^(a)	3.7%
Pacific Panels Inc. ^(b)	3.7%
Peter Wayne Borris ^(b)	3.0%
Luah Kok Lam ^(c)	0.8%
Tee Chin Alk ^(c)	0.7%
Lim Huey Wen ^(c)	0.1%
	20.8%

- (a) Channel Systems Inc. is owned as to 45.0% by Douglas Frederick Bockmiller and 55.0% by Lauren Lindquist Bockmiller.
- (b) Pacific Panels Inc. is owned as to 50.0% by Douglas Frederick Bockmiller and 50.0% by Peter Wayne Borris.
- (c) Mr. Luah Kok Lam is a member of our senior management. Each of Mr. Luah Kok Lam, Mr. Tee Chin Alk and Mr. Lim Huey Wen is an Independent Third Party of our Company.
- (3) Channel CR Material is owned as to 93.5% by Channel Systems (Shanghai), 3.5% by Mr. Khor Why Ping and 3.0% by Mr. Hartono Liu Chan Ong. Both Mr. Khor Why Ping and Mr. Hartono Liu Chan Ong are members of the senior management and Independent Third Parties of our Company.
- (4) Micron Cleanroom has a total of 9,490,000 issued shares, of which, 9,485,000 shares were owned by Micron (M) and 1,000 shares were owned by each of Mr. Ng, Mr. Chin, Ms. Yap, Mr. Chia and Mr. F. Philip A. Pineda. Mr. F. Philip A. Pineda is a local shareholder required under the laws and regulations of the Philippines and an independent third party of our Company.

BUSINESS

OVERVIEW

We are a cleanroom⁽¹⁾ wall and ceiling systems and cleanroom equipment provider based in the PRC and Malaysia, with a proven track record of engaging in cleanroom projects in the PRC and Southeast Asia. We provide a comprehensive range of cleanroom products and services based on customers' needs, including the development, production and installation of cleanroom wall and ceiling systems, and cleanroom equipment such as fan filter units (which filter and regulate air flow in a cleanroom), air showers, pass boxes and HEPA filters.

Our products are mainly used in cleanrooms of different classes under various cleanroom standards, including the most stringent cleanroom class under the FED-STD-209E standard, which is a widely adopted standard in the cleanroom industry. With about 30 years of operating history, we have provided cleanroom products and services for cleanrooms in different industries, including cleanrooms of international well-known semiconductor and electronics companies. We serve our customers in the PRC and overseas through our PRC and Malaysia operations, respectively. We have a market share of 1.1%⁽²⁾ in the PRC cleanroom wall and ceiling system market, while we have a market share of 8.3%⁽²⁾ in the Malaysian cleanroom facility market.

Our Group was founded in 1989 and has grown along with the cleanroom industry in Asia from the 1990's to the present. Through our dedicated efforts, we have established our "Channel Systems" brand for our cleanroom wall and ceiling systems and our "Micron" brand for our cleanroom equipment. We take pride in our ability to produce nearly "zero-outgassing" cleanroom wall and ceiling systems, which keep emission of volatile organic compounds that contaminate the manufacturing facilities to a minimum.

We have a strong track record of engaging in over 2,000 cleanroom contracts for different industry applications during the Track Record Period. The consistent quality of our products enables our customers to meet stringent cleanroom requirements, and our customers and end users that are top players in the downstream industries continuously entrust us as their pre-approved suppliers. We were regularly engaged to provide cleanroom products and installation services for the production facilities of well-known manufacturers of semiconductor and electronic products during the Track Record Period.

Notes:

- (1) A cleanroom is a contained environment equipped with systems and equipment to reduce particulate contamination which may adversely affect the operation process, and to control other environmental parameters such as temperature, humidity and pressure.
- (2) In terms of revenue in 2019, according to the F&S Report.

BUSINESS

We have a strong customer base mainly comprising main contractors and cleanroom design and engineering companies which often engage us on a recurrent basis. With our top five customers during the Track Record Period, we have an average business relationship of over 11 years. In 2019, our customers included all of the top five cleanroom facility main contractors in the PRC⁽²⁾. The end users of our cleanroom products during the Track Record Period also include the largest semiconductor foundry globally⁽²⁾, as well as four of the five largest semiconductor foundries in the PRC⁽²⁾. We believe that our strong and long-term relationship with our customers provides us with a solid foundation for recurring business and future growth. Approximately 39.4% to 69.2% of our revenue during the Track Record Period was derived from cleanroom projects, i.e. contracts for which we provided installation service for our cleanroom products or contracts which we will generally charge our customers based on the percentage completed of installation work on our supplied products and the revenue generated are recognised over time, generally by stages accordance to completion, whereas the remaining revenue were derived from sales of goods and the revenue generated and recognised at a point in time. Our success rate in obtaining new projects by tender was between approximately 69.2% and 87.5% during the Track Record Period.

While we provided our products and services mainly in the PRC, Malaysia, Philippines and Singapore during the Track Record Period, we have also supplied cleanroom products and services in countries in Europe and the Middle East. We believe this demonstrates our customers' confidence in the quality of our products and services and their preference to engage us for their cleanroom projects. We believe that with our customer network and experience in supplying products to different countries, we can penetrate further into our existing markets and expand our business in Southeast Asia and other countries.

We have two well-established manufacturing facilities in the PRC and Malaysia. Our PRC Factory, with a GFA of 2,371 sq.m., mainly manufactures cleanroom wall and ceiling systems for PRC customers. Our Malaysia Factory, with a GFA of 4,515 sq.m., manufactures both cleanroom wall and ceiling systems and cleanroom equipment for our sales in Southeast Asia and other overseas countries. We also rented the Additional Warehouse from April 2020 for one year with a GFA of approximately 1,700 sq.m. to provide immediate and temporary storage support such that we could free up space at our Malaysia Factory and utilise such space for manufacturing purpose, to cater for the requirement of the existing projects and the need to increase the capacity quickly to capture the possible higher demand from potential contracts, details of which are set out under “— Our Strategies — Strategies for the Southeast Asian Market — Expand and relocate our production facility in Malaysia to cater for our growth in Southeast Asia and other countries” of this section. We have established and maintained a systematic quality management system and have adopted the ISO quality management system. Channel Systems (Asia), Channel Systems (Shanghai), Micron (M) and Micron Technology have obtained the ISO 9001:2015 certification. We are able to design and manufacture cleanroom products for our customers that meet some of the most stringent certification requirements under the cleanroom industry standards such as FED-STD-209E Standard Class 1 and ISO 14644-1 Standard Class ISO3.

BUSINESS

Set out below is the breakdown of our revenue by business segment for the periods indicated:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000
Cleanroom wall and ceiling systems	118,341	85.6	151,291	85.2	177,258	86.0	41,848	86.8	22,952	86.2
Cleanroom equipment	13,056	9.4	16,904	9.5	14,536	7.0	3,738	7.7	781	2.9
Others	6,872	5.0	9,353	5.3	14,375	7.0	2,653	5.5	2,903	10.9
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note:

"Others" represents revenue from our ancillary businesses including trading of cleanroom equipment of third party brands and provision of cleanroom preventive maintenance service.

Set forth below is a geographical breakdown of our revenue, based on the locations at which the services were provided or the goods delivered for the periods indicated.

Revenue

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000
The PRC	56,101	40.6	95,980	54.1	110,947	53.8	34,337	71.2	10,412	39.1
Malaysia	35,400	25.6	39,138	22.0	51,504	25.0	1,692	3.5	3,063	11.5
Philippines	20,089	14.5	21,191	11.9	25,703	12.5	7,671	15.9	1,406	5.3
Singapore	17,166	12.4	14,471	8.2	11,008	5.3	2,863	5.9	7,768	29.2
Others	9,513	6.9	6,768	3.8	7,007	3.4	1,676	3.5	3,987	14.9
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note: "Others" includes various countries and locations in Hong Kong, Thailand, Vietnam, Bangladesh, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

As the requirements for the production facilities in growing industries (such as semiconductor, electronics and pharmaceutical industries) become more stringent, cleanroom environment has become an increasingly essential facility for various industries around the world, according to the F&S Report. As the growth of the cleanroom facility market in the PRC and Southeast Asia are expected to remain robust at a CAGR of 8.9% (with the semiconductor portion of the market growing the fastest at a CAGR of 18.8%) and 4.5%, respectively, from 2020 to 2024, according to the F&S Report, we plan to expand our production facilities and business

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in both countries/regions as discussed below. The expansion of our manufacturing facilities is necessary for our business strategy of commencing cleanroom equipment business in the PRC in order to provide more comprehensive support for business opportunities in the PRC.

OUR STRENGTHS

Technical expertise in the production of nearly zero-outgassing cleanroom wall and ceiling systems and extensive cleanroom engineering experience

We specialise in the production and installation of wall and ceiling systems for cleanrooms, including cleanrooms which meet the highest class of commonly adopted industry standards, and we possess technical expertise in the production of nearly “zero-outgassing” cleanroom wall and ceiling systems. Our cleanroom products enable our customers to ensure the efficiency and quality of their production facilities.

We provide our products and services for cleanrooms which are used in the production of various industries, of which semiconductor, electronics and pharmaceutical sectors are only a few examples. For example, production yield of semiconductor components can be adversely affected by the presence of volatile organic compounds (VOCs) in cleanrooms. Limitation of outgassing of such VOCs by materials forming the cleanrooms has therefore become increasingly important. One of the sources of such VOCs in a cleanroom is the “outgassing” from the wall and ceiling panels, wall coating, ceiling grid, as well as the aluminium extrusion profile of the cleanroom. Our nearly zero-outgassing cleanroom wall and ceiling systems seek to keep emission of such VOCs to a minimum level.

Through the establishment of a joint venture with Channel Systems Inc. and Pacific Panels Inc. (both of which were established U.S. cleanroom wall and ceiling systems developers and manufacturers) in 1999, we have been able to leverage on their advanced vacuuming technology to develop a competitive edge and became one of the pioneers in the cleanroom industry in Asia. Through decades of quality service and continuous improvement in accordance with our customers’ requirements, we have mastered and matured the vacuuming technology for the production of nearly “zero-outgassing” cleanroom wall and ceiling systems. Our cleanroom wall and ceiling systems have been widely recognised by our customers for meeting the most stringent particle count standard commonly required in a cleanroom. We have a loyal customer base and are a long-term pre-approved supplier for a number of well-recognised end users of cleanrooms.

In addition to supplying high quality products, with our extensive experience in cleanroom engineering, we are also able to advise on cleanroom design to our customers as part of our value-added services, which our competitors with little experience may not be able to provide. Upon receiving a tender or quotation invitation, instead of merely preparing our tender or quotation based on the floor plan, we review the cleanroom design and make modification suggestions to our customers if we consider that the design can be optimised, before providing our tender proposal or quotation. With this capability, we aim to help our customers reduce the construction materials required to achieve the same purpose or function in the cleanroom, and thereby, save costs. We may also customise certain of our products to better fit our customer’s cleanroom design if we consider it necessary or cost effective.

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Proven track record of cleanroom projects and well-established relationships with major cleanroom contractors and facility owners

With about 30 years of industry experience and solid track record in more than 2,000 cleanroom contracts for numerous industry applications during the Track Record Period, we have proven our ability to provide cleanroom products and services to meet different specifications and customer requirements, up to the most stringent level under commonly adopted cleanroom standards. Our products have been applied in cleanrooms for different sectors, including semiconductor, electronics, pharmaceuticals, biotechnology, medical institutions, nutrition industries, as well as data centres and automotive industries in various countries in Asia, Europe and the Middle East.

Cleanroom systems were first introduced to Asia in around the 1980's. The trend of using cleanroom shifted from the U.S. to Asia in the 1990's due to the growth of semiconductor and microelectronics manufacturing industries in Asia, according to the F&S Report.

According to the F&S Report, for semiconductor industry, the investment of cleanroom facilities only accounts for a small fraction of the total investment in a fabrication plant, which takes billions of dollars, but cleanroom facilities are vital in the functioning of the plant. Due to the high contamination risks of replacement works, cleanrooms are expected to function for a long life cycle. Consequently, in our experience, cleanroom facility owners, especially those operating in high-end manufacturing industries, which have relatively high requirements on the production environment, are generally inclined to engage suppliers with proven track record and purchase from suppliers that they consider reliable. We are of the view that this boosts customer loyalty, which helps us secure new cleanroom contracts.

We believe that because of the high quality cleanroom products we supplied, we have established close business relationships with our major customers, and have been listed as a pre-approved supplier of a number of well-recognised cleanroom facility owners and cleanroom contractors. Through participating in our customers' contracts repeatedly as their business developed, we have expanded our sales from Malaysia and the PRC to other countries in Asia, Europe and the Middle East. For example, through supplying to our largest customer during the Track Record Period (Customer A), which is a main contractor and for which we had successfully completed a number of contracts in Malaysia since 2000, we entered into the PRC market by obtaining our first contract in the PRC on a semiconductor fabrication facility for the largest semiconductor foundry in the PRC (in terms of revenue in 2019, according to the F&S Report). Furthermore, we were able to obtain our first contract in Singapore from another major customer (Customer E) after our first successful cooperation with them in the PRC in 2002. Some facility owners have also referred us to the main contractors as their preferred cleanroom products provider in their contracts in overseas countries other than the PRC and Malaysia as they invited us to tender.

We have established strong and long-term relationships with main contractors and owners of manufacturing facilities. We have an average business relationship of over 11 years with our top five customers during the Track Record Period. For 2019, our customers include all of the top five cleanroom facility main contractors in the PRC⁽²⁾. The end users of our products during the Track Record Period include the largest semiconductor foundry globally⁽²⁾, as well as four of the five largest semiconductor foundries in the PRC⁽²⁾.

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Comprehensive cleanroom products and services from development, production and supply of cleanroom wall and ceiling systems and cleanroom equipment to cleanroom installation services

We are capable of developing, producing and supplying comprehensive cleanroom products, comprising cleanroom wall and ceiling systems and cleanroom equipment, and installation services to our customers.

Our ability to supply both cleanroom wall and ceiling systems and cleanroom equipment saves our customers management time and cost during the tender/quotation process and the construction process. Air cleanliness in a cleanroom is affected by, among others, the level of outgassing of the cleanroom wall and ceiling systems and the air filtering system. With our in-depth knowledge in both systems, we can design integrated cleanroom solutions that enable our customers to meet the relevant cleanroom standard. We currently manufacture cleanroom equipment only in our Malaysia Factory, and we plan to manufacture and supply our cleanroom equipment in the PRC through the expansion of our production facilities in the PRC.

These two business segments provide cross-selling opportunities for each other, and many of our customers engaged us to provide both cleanroom wall and ceiling system products as well as cleanroom equipment. When we are invited to tender for a new cleanroom wall and ceiling systems supply contract, we can also introduce our cleanroom equipment to our customers. Similarly, a customer that uses our cleanroom wall and ceiling systems or cleanroom preventive maintenance service is more likely to invite us to tender for its new cleanroom facility and we may also cross sell our cleanroom equipment to them. According to the F&S Report, cleanroom wall and ceiling systems only accounted for approximately 14% of the total facility costs in 2019, and the rest of the cost is attributable to cleanroom equipment such as fan filter units and other air filtration products. Therefore, we believe that if we are able to increase the production capacity of cleanroom equipment in our Malaysia Factory and introduce our cleanroom equipment to the PRC market, the cross selling opportunities for the two products, particularly in the PRC, present substantial growth potential for our business.

Well-positioned to capture the rising opportunities of the cleanroom industries in the PRC and Southeast Asia

We have a market share of 1.1%⁽²⁾ in the PRC cleanroom wall and ceiling system market, while we have a market share of 8.3%⁽²⁾ in the Malaysian cleanroom facility market, according to the F&S Report. Leveraging on the strength of our service and product quality and our well-established customer base, and with about 30 years of operating history, we believe we are well-positioned to capture the significant growing opportunities in the cleanroom industry in the PRC and Southeast Asia.

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According to the F&S Report, the cleanroom facility market in the PRC in terms of revenue is expected to grow significantly at a CAGR of 8.9% from 2020 to 2024, with the semiconductor portion growing the fastest at a CAGR of 18.8%. The growth will be driven by the rise of the semiconductor industry in the PRC under the PRC government's initiatives such as "Made in China 2025" (「中國製造2025」) and National Integrated Circuit Industry Development Guidelines (「國家集成電路產業發展推進綱要」) as well as the growing investments by government and private entities. According to Frost & Sullivan, the "Made in China 2025" Guideline was issued by the Chinese Government in 2015, when the domestic production volume of integrated circuits accounted for about 26% of total supply in the PRC, while imported integrated circuits accounted for the remaining 74% of total supply in the PRC. The markets of pharmaceuticals and hospitals are expected to continue their growth due to more attentions to public health from the government and public. By contrasts, the market of electronics is expected to experience a cyclical contraction. In addition, as the manufacturing industry in the PRC further develops, more companies from various industries have to strengthen the control of micro-particles during the manufacturing processes to improve the quality of their products, which brings more demand for cleanroom facilities and related products.

The US-China Trade War has been accelerating the development of China's semiconductor industry, as more attention has been paid to the supply chain security of semiconductor, especially chip industry, which drives the increase of domestic manufacturing proportion of semiconductor equipment in China. In addition, the Chinese Government has issued relevant policies on promoting the construction of comprehensive supply chain of the semiconductor industry, including the Certain Policies to Promote the High-quality Development of the Integrated Circuit and the Software Industry in the New Era (《新時期促進積體電路產業和軟體產業高品質發展的若干政策》) issued by the State Council in August 2020, which outlined tax incentives including 10 years of tax exemptions for qualified integrated circuit makers. The production volume of integrated circuits in China increased by 11.2% and 16.0% in 2018 and 2019, respectively.

As another result of the US-China Trade War, more global semiconductor companies choose to invest and build factories in Southeast Asia, which promotes the development of the semiconductor industry in the region. For instance, the production volume of integrated circuits in Malaysia increased by 9.6% and 30.5% in 2018 and 2019, respectively. Due to global political economic trends, and the ramification of the US-China Trade War as described above, our Directors expect that the demand for cleanroom facilities and products in the semiconductor industry will grow as the PRC is planning to expand the production of semiconductor domestically and reduce its reliance on import of semiconductors. At the same time, some international semiconductor companies may plan to set up production base in Southeast Asia regions outside the PRC, which is expected to drive the growth of our business in Southeast Asia. For example, in April 2019, we obtained a contract to supply our cleanroom wall and ceiling products for a new cleanroom facility project in Malaysia of a U.S. semiconductor company, which was founded in the USA, and is principally engaged in the design and manufacturing of computer components and offering of computing, networking, data storage and communications solutions. Its shares are listed on the NASDAQ Stock Market with a market capitalisation of over USD200 billion as at the Latest Practicable Date, and is ranked within the top 50 companies on the Fortune 500 list ("**Relevant Project**"). The contract value of the Relevant Project was approximately RMB28.7 million. The Relevant Project commenced in July 2019 and has been substantially completed in July 2020. To the best knowledge and information of our Directors, this new facility represented its first new substantial production facility in Southeast Asia since 2008.

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According to the F&S Report, the cleanroom facility market in Southeast Asia, in terms of revenue, grew from USD2.1 billion in 2015 to USD2.3 billion in 2019, with a CAGR of 2.9%, and the market is expected to further grow to USD2.9 billion in 2024 with a CAGR of 4.5% from 2020 to 2024. Such growth in the cleanroom facility market is expected to be mainly driven by (i) the development of major downstream manufacturing industries requiring the construction of new plants and production lines; (ii) the relatively low labour costs attracting international enterprises to invest and construct factories in the area; and (iii) the more and more friendly environment for foreign investment with governments issuing favourable policies such as tax subsidy to encourage foreign companies to invest and build manufacturing facilities. Meanwhile, the size of the cleanroom facility market in Malaysia, in terms of revenue, was estimated to be USD90.4 million in 2019, with a CAGR of 4.0% from 2015 to 2019, and the CAGR of cleanroom facility market in Malaysia from 2020 to 2024 is expected to be 4.7% with the cleanroom facility market size reaching USD112.8 million in 2024, according to the F&S Report. The outbreak of COVID-19 is expected to have relatively limited long-term impact on the market, and therefore the CAGR of 2020 to 2024 is expected to reach 4.7% mainly drive by the growth of pharmaceuticals, hospitals, medical devices industries as well as the growth of semiconductor fabrication and packaging & assembly industries.

We believe that we are well-positioned to capture the growing opportunities of the cleanroom industry in these major markets. We have expanded into new geographical markets in the past through our main contractor customers, which helped facility owners set up their cleanroom facilities around the world. For example, we obtained our first contract in the PRC in 2002 and another in Hungary in 2016 through cooperating with a major customer (Customer E). With our largest customer during the Track Record Period (Customer A), we obtained a contract in the PRC in 2003 to supply our products for a cleanroom facility of the largest semiconductor foundry in the PRC in 2019 (in terms of revenue, according to the F&S Report). With our long term relationship and track record with certain major main contractors and well-known semiconductor manufacturers, we believe our significant cleanroom experience and customer network will enable us to secure new cleanroom installation and construction works in this growing market.

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Experienced and dedicated management with industry knowledge and proven track record

We have an experienced, dedicated and capable management team, led by Mr. Ng, who has been instrumental in spearheading the growth of our Group. We have built a capable and loyal senior management team who has, on average, over 12 years of relevant experience, and have been with our Group for over 8 years. Our executive Director, Mr. Ng, has 30 years of experience in mechanical engineering industry, and has been with our Group since 1990. He is responsible for overseeing the business operation as well as business development and strategy of our Group. Our other executive Directors and members of our senior management are also experienced in the various critical aspects of our operations, including project implementation and mechanical engineering. Please see the section “Directors and Senior Management” for further details.

Over the years, our management team has established close relationships with a network of cleanroom contractors, facility owners and suppliers, accumulated in-depth knowledge of the cleanroom technology and industry and stayed abreast of industry development and market trends.

Our Directors and management are supported by a team of committed and well-trained staff. We have an experienced and well-trained quality assurance team, which is essential for maintaining our quality control and assurance standards and is vital for the success of our business. Our engineering staff has also been crucial to our research and development function, and have enabled us to customise and enhance our products and develop new products catering for new application over the years. The key members of our quality management team and our engineering team have over 20 years and 21 years of relevant experience, respectively, and most of them have been with us for over 10 years. We consider our employees as our important assets and seek to provide ample career opportunities and incentives to them and continue to invest in their training and development, which we believe is important for our long-term success and future growth.

OUR STRATEGIES

Strategies for the PRC Market

Increase our production capacity and capabilities for cleanroom wall and ceiling systems and expand our cleanroom equipment business to the PRC market to diversify our product offering

Increase our production capacity and capabilities for cleanroom wall and ceiling systems in the PRC

Cleanroom wall and ceiling panels are bulky and quite commonly have sizes of up to 14m in height and 1.2m in width. They are generally made-to-order based on the floor plan, design of the cleanroom contract and the dimensions and functions required. We therefore only commence production of the wall and ceiling systems when we have been awarded a contract. The maximum scale of cleanroom contract that we can tender for is therefore restricted by our production capacity, which is in turn limited by both the machinery and the available space in our

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factory due to the need to move around large panels during the production processes. Large warehousing space is also required to store the aluminium core and sheet, and other raw materials before production and storage space is also needed to allow the semi-finished panels to dry up before they can be delivered to customers' construction sites for installation. Therefore, in order to capture the substantial growth opportunities in the PRC cleanroom market, it is necessary for us to expand our production facility to increase our production capacity in the PRC.

According to the F&S Report, cleanroom facility market size in the PRC in terms of revenue was estimated at USD17.6 billion in 2020, and is expected to grow at a CAGR of 8.9% to USD24.8 billion in 2024, with the semiconductor segment of the market growing at a CAGR of 18.8%. The growth will be mainly driven by the rise of the semiconductor industry in the PRC under PRC government's initiatives such as "Made in China 2025" (「中國製造2025」) and National Integrated Circuit Industry Development Guidelines (「國家集成電路產業發展推進綱要」), as well as the growing investments from government and private entities. According to Frost & Sullivan, the "Made in China 2025" Guideline was issued by the Chinese Government in 2015, when the domestic production volume of integrated circuits accounted for about 26% of total supply in the PRC, while imported integrated circuits accounted for the remaining 74% of total supply in the PRC. The markets of pharmaceuticals and hospitals are expected to continue their growth due to more attentions to public health from the government and public. By contrasts, the market of electronics is expected to experience a cyclical contraction. In addition, as the manufacturing industry in the PRC further develops, more companies from various industries have to strengthen the control of micro-particles during the manufacturing processes to improve the quality of their products, which is expected to bring more extensive applications of and demand for cleanroom facilities and products.

Furthermore, according to the F&S Report, the cleanroom facility market in the PRC is expected to grow further due to the following market drivers:

- **Increasing investments in electronics and pharmaceutical industries** — Several world leading manufacture semiconductor companies have constructed or planning to construct their new factories in the PRC and several pharmaceutical projects have started in recent years, which all require the use of cleanroom facilities in their manufacturing process.
- **Supporting of Regulation** — The PRC government has released a series of regulations and production standards regarding industries which are our major downstream industries, such as pharmaceutical industry and food industry, which strengthened environment control in the production process and facilitate the additional demand of cleanroom. As such, these regulations stimulated the reconstruction or extension demand of the existing cleanrooms and the new demand for cleanroom in these industries.
- **Expansion of application** — An increasing number of companies have strengthened the control of microparticles to improve the quality of their products, by eliminating dust and static electricity, under the development trend of refinement and complication in the manufacturing industry. The expanding applications encourage the demand for cleanroom facilities.

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For details on the market drivers for the cleanroom facility market in the PRC, please see “Industry Overview — Market drivers of cleanroom facility market in China”.

We have well-established relationships with major cleanroom contractors and facility owners and we believe that this would enable us to capture the increasing demand for cleanroom facilities in the PRC as they tap into such market.

The end users of our products during the Track Record Period include the largest semiconductor foundry globally⁽²⁾, as well as four of the five largest semiconductor foundries in the PRC⁽²⁾. We believe our long term customer network, about 30 years of cleanroom experience and track record in cleanroom industry will enable us to capture the growth opportunities in the market.

About 70-90% of our revenue were generated from the semiconductor industry during the Track Record Period. While the semiconductor market remains as a key growth driver for the cleanroom industry, we also have substantial experience in providing cleanroom services and products to other industry sectors, and aim to increase our market share in the other sectors for our long term sustainable growth. During the Track Record Period, we provided our cleanroom products and services for cleanroom for various other sectors, including pharmaceutical, surgical equipment, medical consumables, as well as hospitals and life science laboratories. We have also accumulated experience in the data centre sector, which has demand for our wall and ceiling systems and raised floor systems. We had participated in five data centre projects during the Track Record Period and up to the Latest Practicable Date. According to the F&S Report, the cleanroom facility market for food and beverage and other sectors such as aerospace, laboratory and data centre, are also expected to grow in the PRC. Such future trends of downstream industries are expected to boost demand for our cleanroom products in the PRC. With the planned increase in our production capacity, we will be able to offer more cleanroom products and services to customers in a wider range of industries.

We believe that there will be sufficient demand for our expanded production capacity in the PRC on the following bases. Based on (i) our historical track record; (ii) the assumption that the growth of the cleanroom walls and ceilings and cleanroom equipment market in the PRC will be in line with the expected growth as set out in the section “Industry Overview — Analysis of Cleanroom Facility Market in China — Market Size of Cleanroom Facility Market in China”; (iii) our growth that is expected to be spurred by our plan to produce cleanroom equipment in the PRC, and selling the cleanroom equipment to customers such as those that have previously engaged us to provide cleanroom equipment outside the PRC, (iv) the cross-selling opportunities between our cleanroom wall and ceiling business and our cleanroom equipment business in the PRC; and, in particular, (v) the potential contracts for supplying cleanroom walls and ceilings in the PRC (“**Potential PRC Wall and Ceiling Contracts**”) that we have identified in the public domain or through our market intelligence, which we expect will be commissioned by customers and/or facility owners with whom we have previously worked, and the expected requirements for the supply of walls and ceilings products under such potential contracts would exceed the maximum production capacity of our PRC Factory.

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We have identified, expected to tender and be engaged for 2 and 12 Potential PRC Wall and Ceiling Contracts in 2020 and 2021, respectively. We estimate that the 2 potential contracts in 2020 would require the supply of over 15,000 sq.m. of cleanroom wall and 6,500 sq.m. of cleanroom ceiling. For the 12 potential contracts in 2021, we estimate that they will require the supply of over 150,000 sq.m. of wall and 100,000 sq.m. of ceiling. To the best of our Directors' knowledge, information and belief, as at the Latest Practicable Date, the details of such Potential PRC Wall and Ceiling Contracts are as follows:

Potential PRC Wall and Ceiling Contracts in 2020

Contract	Estimated total contract sum <i>(RMB'000)</i>	Capital and upfront costs required <i>(RMB'000)</i>	Likelihood for securing the contracts and basis	Expected/ Actual tendering/ quotation date	Expected tender/ quotation result date	Expected contract commencement date
Contract 1	6,500	1,950	High, as this is phase 2 of a project for which we supplied our cleanroom walls during phase 1	Late 2020	Late 2020	Late 2020
Contract 2	4,500	1,350	High, as this is phase 2 of a project for which we supplied our cleanroom walls during phase 1	September 2020 ⁽¹⁾	Late 2020	Late 2020
Total contract sum:	<u>11,000</u>					

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Potential PRC Wall and Ceiling Contracts in 2021

Contract	Estimated total contract sum <i>(RMB'000)</i>	Capital and upfront costs required <i>(RMB'000)</i>	Likelihood for securing the contracts and basis	Expected tendering/ quotation date	Expected tender/ quotation results date	Expected contract commencement date
Contract 3	12,000	3,600	High, as this is phase 2 of a project that applied our cleanroom walls during phase 1	Mid-2021	Late 2021	Late 2021
Contract 4	12,200	3,600	High, as this is phase 2 of a project that applied our cleanroom walls during phase 1	Late 2020	Early 2021	Early 2021
Contract 5	14,500	4,350	Moderately high, as we have strong business relationship with the facility owner	Early 2021	Early 2021	Early 2021
Contract 6	5,000	1,500	High, as this is phase 2 of a project that applied our cleanroom walls during phase 1	Early 2021	Early 2021	Early 2021
Contract 7	13,000	3,900	High, as this is phase 2 of a project that applied our cleanroom walls during phase 1	Mid-2021	Mid-2021	Mid-2021
Contract 8	12,000	3,600	Moderately high, as we have strong business relationship with the facility owner	Late 2020	Early 2021	Early 2021
Contract 9	10,000	3,000	Moderately high, as we have strong business relationship with the facility owner	Mid-2021	Late 2021	Late 2021
Contract 10	9,500	2,850	Moderately high, as we have strong business relationship with the facility owner	Early 2021	Early 2021	Early 2021
Contract 11	5,000	1,500	Moderately high, as we have strong business relationship with the facility owner	Late 2020	Early 2021	Early 2021
Contract 12	12,000	3,600	High, as another of our customer is the consultant to this project	Late 2020	Early 2021	Early 2021

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Contract	Estimated total contract sum (RMB'000)	Capital and upfront costs required (RMB'000)	Likelihood for securing the contracts and basis	Expected tendering/ quotation date	Expected tender/ quotation results date	Expected contract commencement date
Contract 13	12,000	3,600	Moderately high, as we have strong business relationship with the facility owner	Mid-2021	Mid-2021	Mid-2021
Contract 14	12,000	3,600	Moderately high, as we have strong business relationship with the facility owner	Mid-2021	Mid-2021	Late 2021
Total contract sum:	129,200					

Notes:

- The Group has submitted tender for this contract at the date specified and is pending to receive the tender result announcement.

As specific information of cleanroom contracts are generally only available around 6 months prior to the expected contract commencement date, and the aforesaid estimation on the Potential PRC Wall and Ceiling Contracts are based on the best knowledge and estimation of the Directors, which is in turn based on latest available public information and market intelligence and there is no assurance that (i) the demand for cleanroom wall and ceiling will be close to our aforesaid estimation; and (ii) we will be awarded with the contracts. The Directors expect that there may be more upcoming contracts than those identified as at the Latest Practicable Date.

As at the Latest Practicable Date, our PRC Factory had a GFA of approximately 2,371 sq.m., of which approximately 1,700 sq.m. was used as production and warehousing space and the remaining area was used as office and ancillary facilities. Its maximum production capacity for cleanroom wall and ceiling panels was approximately 7,500 sq.m. of panels per month. For FY2017, FY2018, FY2019 and 3M2020, the utilisation rate of our PRC Factory was approximately 69.0%, 97.8%, 99.9% and 70.1%, respectively. Please see the paragraph headed "Production Capacity and Utilisation" in this section below for the reasons for the relatively low utilisation rate for 3M2020. As at the Latest Practicable Date, we had contracts with an aggregate outstanding contract value, for which revenue had not been recognised during the Track Record Period, of approximately RMB102.5 million for the PRC. Among the total sum of approximately RMB102.5 million, approximately RMB97.0 million is expected to be recognised by December 2020 and the remaining balance of approximately RMB5.5 million is expected to be recognised by December 2021. The aggregate outstanding contract value of RMB97.0 million which is expected to be recognised by December 2020 represents approximately 126.7% of our revenue in the PRC for the nine months from 1 April 2019 to 31 December 2019. We generally complete our contracts in six to nine months and the amount of revenue to be recognised is based on the actual progress and the percentage of completion of our contracts. Given that our production was operated at almost full capacity (99.9%) for FY2019, it demonstrates the need to increase our production capacity to cater for our anticipated business expansion and future growth. Our competitiveness is also limited by our maximum production capacity.

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According to the F&S Report, normally, for a semiconductor fabrication plant, the capacity for the production of 10,000 wafers per month will generally require a cleanroom with ceiling panels with area of around 12,000 sq.m. For almost all of the semiconductor fabrication plants under construction, their designed capacity is over 20,000 wafers per month, with many over 30,000 wafers per month. For a LED/LCD display factory, a production capacity of 20,000 substrates per month will generally require cleanroom with ceiling panels with area of around 150,000 sq.m., while currently the designed capacity of many of LED/LCD display factories under construction is over 20,000 substrates per month. It means that with our current production capacity, we need around four months of production time to satisfy the requirement of a typical semiconductor cleanroom contract and around 20 months to satisfy the requirement of a typical LED/LCD display facility. Our customers may be less willing to engage us if we require a long production time to satisfy the wall and ceiling requirements of the cleanroom contract, particularly as the contract size increases. Our limited production capacity therefore reduces our competitiveness for cleanroom wall and ceiling system contracts in the PRC.

During the Track Record Period and up to the Latest Practicable Date, we did not pursue 8 tenders and/or quotations, with a total contract sum of over RMB90 million, for the supply of over 250,000 sq.m. of cleanroom walls and ceilings, mainly due to the insufficiency of our production capacity, which prevented us from undertaking the projects.

Apart from production capacity, production and warehousing space is also important for expanding our business. Cleanroom wall panels with height of over 4.0m are commonly used in semiconductor wafer fabrication facilities, based on our experience. According to our experience, given the much larger product size of LED/LCD display than semiconductor wafers, cleanroom facilities for LED/LCD display manufacturing facilities are generally much larger in size and the walls may measure up to 8m to 14m in height. Production of wall panels of such size and quantity to meet delivery schedule requires more production area and storage space than our PRC Factory could currently provide. During the Track Record Period, we were unsuccessful in the tender or quotation for three LED/LCD display cleanroom contracts, as the potential customer were not satisfied with our production capacity as well as production space. These tenders or quotations have a total contract value of over RMB45 million. We therefore plan to expand our production capacity in the PRC by renting a second factory in PRC with a view of increasing our monthly production capacity in the PRC by 73.3% to 13,000 sq.m. per month and increasing our production space to cater for the production of panels of larger sizes by April 2021.

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Expand our cleanroom equipment business into the PRC

Currently, we do not produce any cleanroom equipment in the PRC. When we commenced our operations in PRC by setting up of our sales office in PRC in 2001, it was our strategy to focus solely on the cleanroom wall and ceiling business, taking into account (i) the competitive edge of the advanced cleanroom wall and ceiling systems technology of Channel Systems Inc. and Pacific Panels Inc. which were principally engaged in the manufacturing and sale of cleanroom wall and ceiling systems in North America; and (ii) it was easier for Channel System's cleanroom wall and ceiling systems to gain initial market recognition as the branding of Channel Systems was more well established internationally compared to Micron.

Through the years of our operations in PRC, we have gradually established our brand reputation and have been entrusted by facility owners and contractors with their cleanroom projects in the PRC. In 2019, our customers included all of the top five cleanroom facility main contractors in the PRC^(Note). The end users of our cleanroom products during the Track Record Period include the largest semiconductor foundry globally^(Note), as well as four of the five largest semiconductor foundries in the PRC^(Note). Riding on the favourable market and customer reception of our products in the PRC as well as our management's knowledge and expertise in the market accumulated over the years, our Directors believe that our PRC presence has matured for us to expand also our cleanroom equipment business into the PRC market. As such, building on our existing experience in our Malaysia operation and our strong customer base in the PRC, we plan to expand our production and supply of cleanroom equipment into the PRC. We also did not import cleanroom equipment from our Malaysia Factory for sale in the PRC during the Track Record Period as the imported products could not be priced competitively, taking into account the import tax of the PRC and the logistics cost. As a result, we have not supplied our "Micron" brand cleanroom equipment in the PRC market to date.

Benefiting from the increasing use of cleanroom facility in manufacturing industries, increase in investments in semiconductor and electronics industries, as well as supportive governmental policies such as "Made in China 2025" Guidelines and National Integrated Circuit Industry Development Guidelines, the cleanroom equipment market in the PRC is expected to grow significantly, in terms of revenue, from USD17.6 billion in 2020 to USD24.8 billion in 2024 with a CAGR of 8.9%, according to the F&S Report. According to Frost & Sullivan, the "Made in China 2025" Guideline was issued by the Chinese Government in 2015, when the domestic production volume of integrated circuits accounted for about 26% of total supply in the PRC, while imported integrated circuits accounted for the remaining 74% of total supply in the PRC. According to the same report, around 86% of the cost of setting up a cleanroom is allocated to cleanroom equipment while the structural framework (including wall and ceiling systems) takes up the remaining 14%, and customers currently may not be able to procure both cleanroom structural framework products and components and parts together from one pre-approved supplier.

We consider that as a preferred cleanroom wall and ceiling systems supplier in the PRC with a solid track record, we will be able to capture the growing demand for cleanroom products and services in the PRC, which includes cleanroom equipment. During the Track Record Period,

Note: In terms of revenue in 2019, according to the F&S Report.

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we had received tender invitations and request for quotations for cleanroom equipment from our main contractor customers for their contracts in the PRC. However, we were unable to compete with domestic manufacturers in terms of price due to import tax and logistics costs for importing the cleanroom equipment produced by our Malaysia Factory into the PRC. Our Directors considered that this market presents substantial room for our business growth, given that we have already developed a strong customer base with cleanroom contractors, and strong business relationship with certain facility owners in the PRC which have demand for cleanroom equipment.

The end users of our cleanroom products during the Track Record Period include the largest semiconductor foundry globally^(Note), as well as four of the five largest semiconductor foundries in the PRC^(Note). With the expansion in production facility in the PRC and increase in R&D efforts to develop new products, as well as enhancing existing products as set out in paragraphs “Continue to invest in research and development to enhance existing products and diversify our product offering”, we believe we can secure orders for our cleanroom equipment in the PRC. In fact, a number of our major customers, which include, among others, Customer A, our largest customer during the Track Record Period (which contributed an over 20% of our revenue during the Track Record Period), Customer C (which was among our top 5 customers for FY2019 and 3M2020, and contribute over 4% of our revenue during the same period) and Customer G (which was among our top 5 customers in FY2018 and contributed over 3% of our revenue during the same period) have confirmed that they would consider purchasing cleanroom equipment from us in their future projects, should we start offering the same in the PRC. We also plan to submit tender/quotations for both our cleanroom wall and ceiling systems and cleanroom equipment for the potential PRC projects, subject to factors such as the tender/quotation requirements. With over 15 years of operation and manufacturing experience, our cleanroom wall and ceiling systems business in the PRC is now mature and our management and sales team in the PRC can devote resources to developing the cleanroom equipment business in the PRC. Our Directors and senior management have also accumulated in-depth experience in cleanroom equipment business in Malaysia as well as a sound understanding of the PRC market. We therefore believe that our expansion into cleanroom equipment business in the PRC is the logical organic growth of our business.

We have identified, up to the Latest Practicable Date, from the public domain or through our market intelligence, three contracts available after May 2021, the proposed commencement date of our cleanroom equipment business in the PRC, for the supply of cleanroom equipment in the PRC (“**Potential PRC Equipment Contract**”, and together with the Potential PRC Wall and Ceiling Contracts, “**Potential PRC Contracts**”) for which our new PRC cleanroom equipment business may be engaged. These contracts are estimated to require the supply of approximately 5,400 units for 2021. Based on the above, our Directors believe there would be sufficient market demand as we expand into cleanroom equipment business and set up the relevant production facilities in the PRC.

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To the best of our Directors' knowledge, information and belief, the details of such Potential PRC Equipment Contract are as follows:

Potential PRC Equipment Contracts in 2021

Contract	Estimated total contract sum <i>(RMB'000)</i>	Capital and upfront costs required <i>(RMB'000)</i>	Likelihood for securing the contracts and basis	Expected tendering/ quotation date	Expected tender/ quotation results date	Expected contract commencement date
Contract 1	9,450	2,835	Moderately high, as this is phase 3 of another contract and as we have a high chance for being awarded repeatedly if phase 2 of such contract is successful	Mid-2021	Mid-2021	Late 2021
Contract 2	3,040	912	Moderate high, as we have strong relationship with facility owner	Mid-2021	Late 2021	Late 2021
Contract 3	810	243	Moderate high, as we have strong relationship with facility owner	Late 2021	Late 2021	Late 2021
Total contract sum:	<u>13,300</u>					

As specific information of cleanroom contracts are generally only available around six months prior to the expected contract commencement date, and the aforesaid estimation on the Potential PRC Equipment Contracts are based on the best knowledge and estimation of the Directors based on available public information and our market intelligence as at the Latest Practicable Date, there is no assurance that (i) the demand for cleanroom equipment will be close to our aforesaid estimation; and (ii) we will be awarded with the contracts. Our Directors expect that there may be more upcoming contracts than those identified above.

We plan to leverage cross selling opportunities from our cleanroom wall and ceiling systems business and include our cleanroom equipment together with cleanroom wall and ceiling systems products when we submit tender/quotation in upcoming contracts if the tender/quotation requirements are met. Based on our experience, as long as we become a pre-approved supplier of cleanroom equipment to our customers, we will be invited to submit tender or provide quotations. We plan to target our sales and marketing efforts towards existing customers and gradually expand to new customers or setting up regional sales offices in the PRC in future.

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For illustration purposes, based on the Potential PRC Wall and Ceiling Contracts in 2021 as set out above, our Directors have estimated the quantity of cleanroom equipment that may be required in such projects and that we may be able to cross-sell to our potential customers had we produced and offered cleanroom equipment in the PRC market. Taking into account the design and dimensions of the cleanroom facilities required in such projects, our Directors estimated that approximately over 15,000 units of cleanroom equipment (amounting to a contract value of over RMB52 million), may be required for the Potential PRC Wall and Ceiling Contracts in 2021, respectively.

In order to capture the growth opportunities in the cleanroom facility market in the PRC, we intend to use approximately 34.0% of the net proceeds from the Global Offering, or approximately HK\$21.3 million, for the expansion and renovation of our production facilities in the PRC, including the leasing of premises for, and setting up of, our Second PRC Factory, as well as the acquisition of additional machinery for cleanroom walls and ceilings and cleanroom equipment production in the PRC. In addition, we intend to use approximately 7.8% of the net proceeds, or approximately HK\$4.8 million, on strengthening our sales and marketing, and engineering and support functions in the PRC.

To streamline the expansion of our production operations, we plan to commence production of cleanroom equipment in our PRC Factory and relocate the wall and ceiling system production to the second PRC Factory as set out below.

Second PRC Factory

To meet our expansion plan as set out above, we plan to rent a factory plant by the end of 2020 and set up our second factory in the PRC to commence operation by April 2021 with a GFA of around 5,000 sq.m. ("**Second PRC Factory**"). The Second PRC Factory is planned to have a production and storage area of approximately 4,200 sq.m. and office space of approximately 800 sq.m. The entire production and storage area of the Second PRC Factory is planned to be used for production of cleanroom wall and ceiling systems. The existing PRC Factory is planned to be reconfigured so that approximately 1,765 sq.m. will be used for production and storage of cleanroom equipment and approximately 606 sq.m. will be used for office space and ancillary facilities. We expect that full operation of such production of cleanroom equipment will commence in May 2021.

We lease, and do not own, our PRC Factory. As such, we are restricted from modifying the existing factory building or construct any new building for our expansion without consent and cooperation of the landlord and the approval of the relevant government authorities. Furthermore, we are also restricted from modifying the internal structure of the factory building. We consider that leasing a factory building in the PRC is more favourable to us than acquiring such building because there are plentiful supply of suitable sites in industrial parks and technology parks in Shanghai for leasing, and the lease terms are generally up to three years and easily renewable. We also consider that the upfront costs for acquisition of a factory in the PRC is much higher than that for acquisition of a factory in Malaysia. In selecting the appropriate site, we will take into account factors such as the rent, area, transportation infrastructure and term of lease. We do not anticipate any material difficulty in leasing suitable site for our expansion plan. We estimate that the aggregate rent for the Second PRC Factory for the initial three-year lease term would be approximately RMB9.9 million.

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Subject to the leasing of suitable premises by the end of 2020 and relevant permits being obtained in time, our Second PRC Factory is expected to commence operation by April 2021. We plan to organise our production line in the Second PRC Factory such that it is capable of manufacturing wall and ceiling panels of up to 14m in height to meet the size requirement of almost all cleanroom facilities in different industries based on our experience. Our estimated maximum production capacity for cleanroom walls and ceilings in the PRC, in terms of aggregate areas of wall and ceiling panels, is expected to increase by approximately 73% from approximately 7,500 sq.m. per month to 13,000 sq.m. per month after the commencement of operation of the Second PRC Factory. For cleanroom equipment, our estimated maximum production capacity is expected to be approximately 925 pieces of metal sheets per month.

Additional machinery

To increase our production capacity in the PRC, we intend to acquire the following additional machinery for the wall and ceiling production processes:

Production steps	Machinery	Estimated unit price (RMB)	Unit	Total estimated cost (RMB)
Cleanroom wall and ceiling systems				
Metal core uncoiling, expanding, lamination and cutting	Hydraulic press brake for metal sheet bending	300,000	2	600,000
	Toolings for hydraulic press brakes	33,000	2	66,000
Panel cutting	Double saw cutting machine	150,000	2	300,000
	Vertical saw cutting machine	50,000	2	100,000
	Hydraulic shearing machine	115,000	2	230,000
Adhesive preparation, assembly of core and skin	Oven vacuum table system for manufacturing honeycomb panel	45,000	5	225,000
	Other panel platform and press table for rockwool and panel manufacturing	100,000	5	500,000
All production steps	Fabrication tooling, racking system and workstation	200,000	1	200,000
	Forklift	140,000	2	<u>280,000</u>
				<u><u>2,501,000</u></u>

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We intend to acquire the following additional machinery to set up our production line for cleanroom equipment:

Production steps	Machinery	Estimated unit price (RMB)	Unit	Estimated total cost (RMB)
Cleanroom equipment				
Metal sheet processing	Laser turret combi punch press	1,500,000	2	3,000,000
	Tooling parts for punch press	1,500	60	90,000
	Robot welding machine	190,000	1	190,000
	CNC hydraulic press brake	300,000	3	900,000
	Toolings for 3 sets of hydraulic press brake	–	–	100,000
	Hydraulic shearing machine	115,000	3	345,000
Assembly of metal and electrical parts	Tungsten inert gas welding machine	25,000	4	100,000
	Metal inert gas welding machine	25,000	4	100,000
Quality control and testing	FFU and cleanroom equipment testing instrument:			
	(i) aerosol particle counter	100,000	2	200,000
	(ii) sound level meter and electrical testing instrument	10,000	2	20,000
	(iii) balometer kit (2'x2') and (2'x4')	30,000	2	60,000
All production steps	Fabrication tooling, racking system and workstation	200,000	1	200,000
	Forklift	140,000	2	280,000
	Miscellaneous tools and parts	–	–	200,000
				<u>5,785,000</u>

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Expected utilisation rate of our PRC Factory

We plan to produce cleanroom wall and ceiling in the Second PRC Factory and cleanroom equipment in the PRC Factory. The following table sets out the expected utilisation rate of our PRC Factory and Second PRC Factory after the implementation of our above expansion plan:

	2021 (April to December)
Cleanroom wall and ceiling (i.e. Second PRC Factory)	
– Theoretical capacity (sq.m.) ⁽¹⁾	117,000
– Expected production volume (sq.m.) ⁽²⁾	87,075
– Utilisation rate ⁽³⁾	74.4%
	2021 (May to December)
Cleanroom equipment (i.e. PRC Factory)	
– Theoretical capacity (pieces) ⁽⁴⁾	7,400
– Expected production volume (pieces) ⁽²⁾	5,800
– Utilisation rate ⁽³⁾	78.4%

Notes:

- (1) It is assumed that the Second PRC Factory will commence production by April 2021. The combined production capacity for our cleanroom walls and ceilings for any period refers to the theoretical maximum area (in sq.m.) of panels it can produce, assuming 8 working hours per day and 250 working days per year. We estimate the daily production of panels will be an average of 624 sq.m..
- (2) The expected production volume (“**Expected PRC Production Volume**”) is estimated on the bases of: (i) our historical performance; (ii) the assumption that full operation of the Second PRC Factory for production of cleanroom wall and ceiling will commence by April 2021, and the production of the cleanroom equipment in the PRC Factory will commence by May 2021; (iii) the assumption that growth of the cleanroom walls and ceilings and cleanroom equipment market will be in line with the expected growth set out in the section “Industry Overview — Analysis of Cleanroom Facility Market in China — Market Size of Cleanroom Facility Market in China”; and (iv) we being able to implement our strategies and business plans to be engaged in additional cleanroom projects, namely the Potential PRC Contracts as set out above.
- (3) Utilisation rate equals to expected production volume of products divided by theoretical maximum production capacity.
- (4) It is assumed that the production of the cleanroom equipment at the PRC Factory will commence in May 2021. The theoretical production capacity for our cleanroom equipment products in a period refers to the theoretical maximum number of equipment our PRC Factory can produce, assuming 8 working hours per day and 250 working days per year.
- (5) The expected utilisation rates relate to future events and are estimated based on assumptions that may not remain valid for the whole period up to 31 December 2021, or at all. There is no assurance as to how closely the actual utilisation rates will be for the above mentioned periods.

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The total investment costs for our PRC expansion plan, as set out above, are expected to be approximately RMB22.7 million (i.e. approximately HK\$25.8 million), comprising:

- (i) approximately RMB9.9 million (i.e. approximately HK\$11.2 million) for leasing the Second PRC Factory for the initial three-year lease term;
- (ii) approximately RMB4.5 million (i.e. approximately HK\$5.2 million) for general set up costs (including renovation costs of the Second PRC Factory, installation costs of machineries for both wall and ceiling systems and cleanroom equipment manufacturing); and
- (iii) approximately RMB8.3 million (i.e. approximately HK\$9.4 million) for acquisition of machineries as set out above.

The total investment costs of RMB22.7 million (i.e. approximately HK\$25.8 million) are expected to be funded by the following means:

- (i) the leasing of the Second PRC Factory for the initial three-year lease term of approximately RMB9.9 million (i.e. approximately HK\$11.2 million) will be funded:
 - (a) approximately RMB8.2 million (i.e. approximately HK\$9.2 million) by the net proceeds from the Global Offering; and
 - (b) approximately RMB1.7 million (i.e. approximately HK\$2.0 million) by our internal resources;
- (ii) the general set up costs (including renovation costs of the Second PRC Factory, installation costs of machineries for both wall and ceiling systems and cleanroom equipment manufacturing) of approximately RMB4.5 million (i.e. approximately HK\$5.2 million) will be funded:
 - (a) approximately RMB3.8 million (i.e. approximately HK\$4.3 million) by the net proceeds from the Global Offering; and
 - (b) approximately RMB0.7 million (i.e. approximately HK\$0.9 million) by our internal resources;
- (iii) the acquisition of machines in the amount of approximately RMB8.3 million (i.e. approximately HK\$9.4 million) will be funded:
 - (a) approximately RMB6.9 million (i.e. approximately HK\$7.8 million) by the net proceeds from the Global Offering; and
 - (b) approximately RMB1.4 million (i.e. approximately HK\$1.6 million) by our internal resources;

The capital expenditure for our Second PRC Factory is estimated to be approximately RMB12.8 million (i.e. approximately HK\$14.6 million).

The general set up costs and costs for acquisition of machineries are expected to be incurred by 31 March 2021. As at the Latest Practicable Date, we have not incurred any expenses for the new factory.

Strategies for the Southeast Asian Market

Expand and relocate our production facility in Malaysia to cater for our growth in Southeast Asia and other countries

We plan to expand our production facility and increase our production capacity in Malaysia to cater for the expected growth of our cleanroom product sales in Southeast Asia and other countries. Growth of cleanroom industries in Southeast Asia and Malaysia is expected to remain robust at a CAGR of 4.5% and 4.7% from 2020 to 2024, according to the F&S Report.

Furthermore, according to the F&S Report, the cleanroom facility market in Southeast Asia is expected to be driven by the following market drivers:

- **Development of major downstream industries.** With the economic growth of Southeast Asian countries, the demand for electronic products is increasing rapidly, which leads to the development of local semiconductor industry and therefore increasing demand for cleanroom facility. Additionally, with the improvement of individual wealth in Southeast Asia, consumers start to pay more attention to personal health, which makes Southeast Asia the next emerging market for medical and pharmaceutical industries, driving the demand for cleanrooms.
- **Relatively low labour cost.** The relatively low labour cost in Southeast Asian countries which attracts the international enterprises to invest in and construct factories in the area. For example, Malaysia and Vietnam are among the most important semiconductor and electronic product exporters in the world.
- **More and more favourable environment for foreign investment.** Governments of many Southeast Asian countries have issued favourable policies to attract foreign investment, such as tax subsidy to encourage foreign companies to invest and build manufacturing facilities. As such, many foreign cleanroom downstream industry companies are investing and starting operations in Southeast Asian countries. Further, there is no import/export constraints nor high duties in Southeast Asia that would restraint the shipment of cleanroom products across Southeast Asian countries.

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For details on the market drivers of the cleanroom facility market in Southeast Asia, see “Industry Overview — Market drivers of cleanroom facility market in Southeast Asia”.

As a pre-approved supplier of a number of cleanroom facility owners and main contractors and with our solid track record and long term relationship with them, we are often invited to tender for or submit fee quote for their new cleanroom facilities located in Southeast Asia and other countries. Our businesses have expanded geographically and organically, following cleanroom facility owners and main contractors when they set up cleanroom facilities in different locations around the world. We have now participated in cleanroom projects in many locations in Southeast Asia such as Singapore, Thailand, the Philippines, India, Vietnam, as well as other locations such as Hong Kong, Taiwan, Japan, certain European countries such as Hungary and Portugal, the United Kingdom, as well as Middle East countries (being Kuwait and Saudi Arabia). During FY2017, FY2018, FY2019 and 3M2020, 59.4% 45.9%, 46.2% and 60.9% of our revenue were generated from sales to locations other than the PRC.

We believe that there will be sufficient demand for our expanded production capacity in Malaysia on the following bases. Based on (i) our historical performance; (ii) the assumption that the growth of the cleanroom facility market in Southeast Asia will be in line with the expected growth set out in the section “Industry Overview — Market Size of Cleanroom Facility Market in Southeast Asia”, (iii) our awarded project for a semiconductor product manufacturing facility in Kulim, Malaysia, for a leading U.S. semiconductor company, and our awarded contract in December 2019 for a 11-storey mega data centre facility in Singapore for a leading online social media and social networking service company, whose shares are listed on the NASDAQ Stock Market with a market capitalisation of over USD759 billion as at the Latest Practicable Date, and is ranked within the top 50 companies on the Fortune 500 List, with a contract sum of approximately RMB42.6 million; and, in particular, (iv) the potential cleanroom walls and ceilings contracts and potential cleanroom equipment contracts in Southeast Asia (“**Potential SEA Wall and Ceiling Contracts**” and “**Potential SEA Equipment Contracts**”, respectively, and together, “**Potential SEA Contracts**”) that we have identified in the public domain or through our market intelligence, which we expect will provide sufficient demand to support our plan to expand our production capacity in Malaysia.

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We have identified, expected to tender and be engaged for 1 and 5 Potential SEA Wall and Ceiling Contracts in Southeast Asia in 2020 and 2021, respectively. Based on the information available as at the Latest Practicable Date, we estimate that the Potential SEA Wall and Ceiling Contract would require the supply of more than 1,000 sq.m. of cleanroom ceiling and 500 sq.m. of cleanroom wall and panel for 2020; and more than 30,000 sq.m. of cleanroom ceiling and 20,000 sq.m. of cleanroom wall and panel for 2021. To the best of our Directors' knowledge, information and belief as at the Latest Practicable Date, the details of such Potential SEA Wall and Ceiling Contracts are as follows:

Potential SEA Wall and Ceiling Contracts in 2020

Contract	Estimated total contract sum (RMB'000)	Capital and upfront costs required (RMB'000)	Likelihood for securing the contracts and basis	Actual tendering/ quotation date	Expected tender/ quotation result date	Expected contract commencement date
Contract 1	4,950	1,485	High, as this is phase 2 of a contract for which we supplied cleanroom walls in phase 1	November 2019	Late 2020 ⁽¹⁾	Late 2020

Potential SEA Wall and Ceiling Contracts in 2021

Contract	Estimated total contract sum (RMB'000)	Capital and upfront costs required (RMB'000)	Likelihood for securing the contracts and basis	Expected/ Actual tendering/ quotation date	Expected tender/ quotation result date	Expected contract commencement date
Contract 2	9,900	2,970	High, as this is phase 3 of a contract for which we supplied cleanroom walls in ongoing phases ⁽²⁾	May 2019	Late 2020 ⁽²⁾	Early 2021
Contract 3	9,900	2,970	Moderately high, as we have strong business relationship with the facility owner	Late 2020	Early 2021	Early 2021
Contract 4	2,640	792	High, as this is phase 4 of a contract for which we supplied cleanroom walls in ongoing phases ⁽²⁾	May 2019	Early 2021 ⁽²⁾	Late 2021

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Contract	Estimated total contract sum <i>(RMB'000)</i>	Capital and upfront costs required <i>(RMB'000)</i>	Likelihood for securing the contracts and basis	Expected/ Actual tendering/ quotation date	Expected tender/ quotation result date	Expected contract commencement date
Contract 5	13,200	3,960	Moderately high, as this is phase 2 of a contract for which we supplied cleanroom ceilings in phase 1	Late 2019 ⁽³⁾	Mid-2021	Mid-2021
Contract 6	13,200	3,960	Moderately high, as we have strong business relationship with the facility owner	Late 2020	Mid-2021	Mid-2021
Total contract value:	<u>48,840</u>					

Notes:

1. The Group has submitted tender for this contract at the date specified and is pending to receive the tender result announcement on or about October 2020. To the best of our Directors' knowledge, our customer is finalising the project details and cost options, and the tender result is expected to be out on or about October 2020 accordingly.
2. Contracts 2 and 4 are the phases 3 and 4 of the same cleanroom facility. Our group submitted tender for the entire facility in May 2019, and we expect that the tender results will be released when the work for the corresponding phases are expected to commence.
3. When we entered our tender regarding this facility in late 2019, the contract was not split into two phases. The facility owner subsequently separated the contract into two phases, with an aim to complete phase 1 as soon as possible. Phase 1 with a contact value of RMB28.7 million was awarded to us in April 2019, commenced in July 2019 and was substantially completed in July 2020. The tender result date of the second phase is scheduled in mid-2021.

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We have also identified, expected to tender and be engaged for 8 and 6 Potential SEA Equipment Contracts for the supply of cleanroom equipment in Southeast Asia in 2020 and 2021, respectively. We estimate that the 8 potential contracts and orders in 2020 would require the supply of more than 2,800 units, while we estimate the 6 potential contracts and orders in 2021 would require more than 2,500 units. To the best of our Directors' knowledge, information and belief, the details of such Potential SEA Equipment Contracts are as follows:

Potential SEA Equipment Contracts in 2020

Contract	Estimated total contact sum (RMB'000)	Capital and upfront costs required (RMB'000)	Likelihood for securing the contracts and basis	Actual tendering/ quotation date	Expected tender/ quotation result date	Expected contract commencement date
Contract 1	1,440	432	High, as we supplied cleanroom equipment for the facility in a previous contract, and the facility owner prefers having the same equipment for the entire facility	February 2020	Late 2020 ⁽¹⁾	Late 2020
Contract 2	2,720	816	Moderately high, as we have strong relationship with the facility owner	February 2020	Late 2020 ⁽¹⁾	Late 2020
Contract 3	3,600	1,080	Moderately high, as we have strong relationship with the facility owner	May 2019	Late 2020 ⁽²⁾	Late 2020
Contract 4	800	240	Moderately high, as we have strong relationship with the facility owner	August 2019	Late 2020 ⁽³⁾	End 2020
Contract 5	800	240	Moderately high, as we have strong relationship with the facility owner	January 2020	Late 2020 ⁽⁴⁾	Late 2020
Contract 6	960	288	Moderately high, as we have strong relationship with the facility owner	April 2019	Late 2020 ⁽¹⁾	Late 2020
Contract 7	800	240	Moderately high, as we have strong relationship with the facility owner	May 2019	Late 2020 ⁽⁵⁾	Late 2020
Contract 8	800	240	Moderately high, as we have strong relationship with the facility owner	March 2020	Late 2020 ⁽⁶⁾	Late 2020
Total contract value:	11,920					

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Potential SEA Equipment Contracts in 2021

Contract	Estimated total contract sum <i>(RMB'000)</i>	Capital and upfront costs required <i>(RMB'000)</i>	Likelihood for securing the contracts and basis	Expected tendering/ quotation date	Expected tender/ quotation result date	Expected contract commencement date
Contract 9	2,490	747	High, as our equipment is specified in the tender as a recommended brand	Late 2020	Early 2021	Early 2021
Contract 10	2,490	747	High, as we supplied cleanroom equipment for the facility in a previous project, and the facility owner prefers having the same equipment for the entire facility	Late 2020	Early 2021	Early 2021
Contract 11	3,984	1,195	High, as this is a repeated order by the same customer	Early 2021	Early 2021	Mid-2021
Contract 12	3,154	946	Moderately high, as we have strong relationship with the facility owner	Early 2021	Mid-2021	Mid-2021
Contract 13	6,640	1,992	Moderately high, as we have strong relationship with the facility owner	Early 2021	Mid-2021	Mid-2021
Contract 14	3,984	1,195	Moderately high, as we have strong relationship with the facility owner	Late 2020	Early 2021	Mid-2021
Total contract value:	<u><u>22,742</u></u>					

Notes:

1. The Group has submitted tender for this project at the date specified and is pending to receive the tender result announcement.
2. The Group has submitted tender for this contract at the date specified and the mock-up sample and drawing have been approved. The Group is pending to receive the tender result announcement in or around October 2020.
3. The Group has submitted tender for this contract at the date specified. To the Directors' best knowledge, the Group has been shortlisted as one of the potential awardees. The tender result announcement is expected to be announced in or around October 2020.
4. The Group submitted tender for this project as at the date specified. To the Directors' best knowledge, the Group is revising drawing and experts to resubmit cost proposal to the customer, and tender result announcement will take place in or around October 2020.
5. The Group submitted tender for this project as at the date specified, and the Group is undergoing negotiation with the customer. To the Directors' best knowledge, our Group is pending to receive the tender result announcement in or around October 2020.

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6. The Group submitted tender for this project as at the date specified, and the Group is undergoing negotiation with the customer. To the Directors' best knowledge, the Group is pending to receive the tender result announcement in or around October 2020.

As specific information of cleanroom contracts are generally only available around six months prior to the expected contract commencement date, and the aforesaid estimation on the Potential SEA Contracts are based on the best knowledge and estimation of the Directors, which is in turn on latest available public information and market intelligence, there is no assurance that (i) the demand for cleanroom walls and ceilings will be close to our aforesaid estimation; and (ii) we will be awarded with the contracts. Our Directors expect that there may be more upcoming contracts than those identified as at the Latest Practicable Date.

We will continue to work closely with our customers and provide them with cleanroom services and support as they establish new facilities in Southeast Asia and other countries. We believe that with our customer base and experience, we are in the position to capture the potential growth in Southeast Asia cleanroom market. Therefore, we plan to relocate our production facility to increase our production capacity in Malaysia, which is the manufacturing base to support our sales in Southeast Asia and other countries except the PRC.

We own our Malaysia Factory. As at the Latest Practicable Date, our Malaysia Factory has a GFA of approximately 4,515 sq.m, of which approximately 2,600 sq.m. were available for production and warehousing. As at the Latest Practicable Date, the maximum production capacity of our Malaysia Factory was approximately 4,013 sq.m. (in terms of total areas of cleanroom wall and ceiling panel) per month and 385 units of cleanroom equipment per month. For FY2017, FY2018, FY2019 and 3M2020, the utilisation rate of our Malaysia Factory for cleanroom wall and ceiling system production was approximately 98.4%, 99.8%, 99.9% and 60.3%, respectively, and that for cleanroom equipment production was approximately 87.6%, 93.6%, 92.1% and 44.6%, respectively. Please see the paragraph headed "Production Capacity and Utilisation" in this section below for the reasons for the relatively low utilisation rate for 3M2020. In February 2020, we entered into a lease agreement for the lease of an Additional Warehouse with a GFA of approximately 1,700 sq.m. in Shah Alam, Selangor from April 2020 until March 2021 for one year. This is to provide immediate and temporary storage support such that we could free up space at our Malaysia Factory and utilise such space for manufacturing purpose, to cater for the requirement of the existing projects and the need to increase the capacity quickly to capture the possible higher demand from potential contracts. We have acquired additional machinery to utilise the manufacturing floor area that was originally obstructed by our storage and thus could not be utilised for production purposes, details of which is set out under "— Additional machinery" in this section. The trial run of the additional machineries were completed in July 2020 and our production capacity at our Malaysia Factory increased by around 37% starting August 2020. Such additional machinery will be relocated to the New Malaysia Factory and integrated to other additional machineries we intend to acquire. We may renew the lease for the Additional Warehouse after our current lease expire in March 2021 until our New Malaysia Factory commence operation, which is expected to be in October 2021.

As at the Latest Practicable Date, we had contracts with an aggregate outstanding contract value of RMB73.6 million for both wall and ceiling systems and equipment outside PRC, for which revenue had not been recognised during the Track Record Period. Among the total sum of approximately RMB73.6 million, approximately RMB61.0 million is expected to be recognised by

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December 2020 and the remaining balance of approximately RMB12.6 million, mainly comprising the remaining contract value for a 11-storey tall mega data centre facility project in Singapore which is expected to require more time to complete due to the size of the project, is expected to be recognised by December 2021. We generally complete our contract in six to nine months and the amount of revenue to be recognised is based on the actual progress and the percentage of completion of our contracts. The aggregate outstanding contract value of RMB61.0 million, which is expected to be recognised by December 2020, represents approximately 75.0% of our revenue from outside PRC for the nine months from 1 April 2019 to 31 December 2019.

Limitation of production capacity impacts our ability to compete for large scale contracts for our cleanroom equipment business. According to the F&S Report, the amount of fan filter units needed for a cleanroom depends on multiple factors, including the area of the cleanroom, the required cleanroom class and the capacity of the fan filter unit. For a typical semiconductor grade (Class 100) cleanroom of 5,000 sq.m., around 3,400 units of fan filter units are necessary. As is the case for cleanroom wall and ceiling systems, cleanroom equipment such as fan filter units and air showers are also large products that require substantial space to manufacture and store. When we undertake a contract to supply both cleanroom wall and ceiling systems and cleanroom equipment at the same time, requirement for production and warehousing space is even higher. During the Track Record Period, we did not pursue four business opportunities to supply over 50,000 sq.m. of cleanroom wall and ceiling systems (with a total contract value of over approximately RMB27 million), as well as 11 business opportunities for the supply of over 3,500 units of cleanroom equipment (with a total contract value of over RMB20 million) because the contract scale exceeded our delivery capability or that our production capacity has been otherwise engaged.

New Malaysia Factory

We own our Malaysia Factory. We also rented the Additional Warehouse from April 2020 for one year. We plan to expand our production facility in Malaysia by 2021 by relocating to a larger factory, with an aim to increase our production capacity in Malaysia by approximately 80% to 7,230 sq.m. (in terms of total area of cleanroom wall and ceiling panels) per month and by approximately 62% to 980 pieces of equipment per month. We expect that the expansion will allow us to better manage our production schedule, meet the growing market demand and enhance customers' confidence in our delivery capability.

Our Directors believe it will be more beneficial for us to relocate our Malaysia production facility instead of expanding our existing production facility, as (i) the current layout had been approved by the relevant government authorities and that it is illegal for us to add additional structure or extend the building of our production facility; (ii) it is not feasible to expand vertically by constructing another level, as the existing building structure and foundation have not been designed for and is not capable of supporting such building loading; (iii) we would need to temporarily cease our production during any building or production facility expansion, which would cause interruptions to our production flow and thus affect our ability to fulfil our delivery schedule; and (iv) we plan to relocate our production facility by stages, such that it would not cause material interruption to our production flow and thus the impact on our production fulfilment ability would not be as severe.

We intend to relocate our Malaysia production facility to a new factory ("**New Malaysia Factory**") with a site area of approximately 12,000 sq.m. and GFA of approximately 7,500 sq.m.,

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comprising approximately 1,900 sq.m. of office space and approximately 5,600 sq.m. of production and storage space. Around 57% of the production and storage space (i.e. approximately 3,200 sq.m.) in the New Malaysia Factory will be allocated to cleanroom wall and ceiling systems and 43% of the production and storage space (i.e. approximately 2,400 sq.m.) will be allocated to cleanroom equipment.

Our Directors estimate that the relocation cost would be approximately RMB570,000. It is estimated that the relocation would take around two to three months as we plan to relocate by stages. We plan to relocate our machinery, after the purchase of the New Malaysia Factory by January 2021 and completion of its renovation by June 2021, from July 2021 until August 2021. We expect that the New Malaysia Factory will be in full operation by October 2021. As we plan to relocate our production facility by stages, we foresee that there would not be any material disruption to our production flow or material impact on our operations in Malaysia due to such relocation, and we would take all possible measures to avoid such disruptions from occurring.

We intend to purchase an existing factory building to set up the New Malaysia Factory. We consider that purchasing an existing factory building is more favourable to us than leasing a new factory building because it is more commercially sensible to invest the substantial initial set up time and costs on owned property. In comparison to the acquisition costs of a factory in the PRC, the acquisition cost of a factory in Malaysia is lower and has a long term benefit for us. Further, with a self-owned factory, there is no risk of termination of lease or increase of rent. The factory layout can also be customised to meet our production needs without restriction that may be imposed by landlord or the burden of reinstatement costs. We also consider that in a long run, acquisition of a factory is more economical than renting one in Malaysia.

We estimate that the acquisition and renovation costs of a factory site with site area of approximately 12,000 sq.m. together with a factory building with GFA of approximately 7,500 sq.m. will be in aggregate around RM36.4 million (i.e. approximately HK\$68.8 million), while the annual rent of a factory of similar size is estimated at around RM1.5 million (i.e. approximately HK\$2.8 million) per year. Assuming an interest rate for fixed deposit of 3.50%, the annual interest income derived from the saving of the estimated acquisition cost of RM36.4 million (i.e. approximately HK\$68.8 million) for a new factory would only be RM1.3 million and is less than the amount of annual rent.

*The cost and benefit analysis for our acquisition (“**Acquisition Approach**”), instead of leasing (“**Leasing Approach**”), a factory building to set up the New Malaysia Factory*

Our Directors consider that it is in our interest to acquire, rather than lease, a factory building to set up our New Malaysia Factory using the net proceeds from the Global Offering. The cost and benefit analysis of the Acquisition Approach and the Leasing Approach is summarised as follows:

Factors under consideration	Acquisition Approach	Leasing Approach
(1) Initial cash outflow	Significant initial cash outflow for settlement of consideration for the acquisition of factory	Initial cash outflow for payment of deposit which is normally equivalent to rental of a few months

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Factors under consideration	Acquisition Approach	Leasing Approach
(2) Initial investment in renovation	Same	Same
(3) Lease payment	No cash outflow of rental expense involved	Cash outflow of rental expenses of approximately RMB3.0 million per annum <i>(Note 2)</i>
(4) Impact from fluctuation in rental level	Not affected	Rental expenses will be subject to the adjustment upon each renewal of lease agreement <i>(Note 3)</i>
(5) Depreciation of property, plant and equipment	Depreciation cost of approximately RMB0.5 million per annum is expected <i>(Note 1)</i>	Depreciation cost of approximately RMB2.5 million per annum is expected <i>(Note 4)</i>
(6) Depreciation on capitalised renovation costs	Same	Same
(7) Interest expenses on lease liability	No interest expense on lease liability involved	Finance cost on lease liability is charged to the statement of profit or loss over the lease term so as to produce a constant periodic interest expenses on the remaining balance of the lease liability for each period <i>(Notes 4 & 5)</i>
(8) Impact of failure in lease renewal	Not affected	<ul style="list-style-type: none"> – Operation of the production factory might be interrupted due to relocation – The investment in renovation for the original factory will be forfeited and additional renovation cost will be incurred for the replacement factory

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A comparison of the effect on our profit and loss under Acquisition Approach and Leasing Approach is set out in the table below:

		<i>RMB'000</i>
Annual costs relating to Leasing Approach		
Annual interest expenses on lease liability ^(4, 5)	A	232-2,388
Annual depreciation on property, plant and equipment ^(1, 4)	B	3,127
Annual costs relating to Acquisition Approach		
Annual interest expenses on mortgage	C	1,666
Annual depreciation on property, plant and equipment ^(1, 4)	D	1,210
Others ⁽⁶⁾	E	<u>90</u>
Annual cost saving for Acquisition Approach	A+B-C-D-E	<u><u>393-2,549</u></u>
One-off costs associated with the Acquisition⁽⁷⁾		2,820

Notes:

1. Based on the available market information, it is assumed that value of the freehold land amounted to approximately RMB28.7 million and that of the building amounted to approximately RMB24.7 million. It is also assumed that there is no revaluation gain/loss on freehold land and building. The depreciation of building and leasehold improvement is recognised over its estimated useful lives (i.e. 2% or over the lease term whichever is shorter and 15% or over the lease term whichever is shorter, respectively), using the straight-line method.
2. The monthly rental cost is assumed to be RMB246,442, which represents the prevailing market price of rental of production factory with size and location similar to the one under the Acquisition Approach.
3. It is assumed that the annual incremental rental rate in Malaysia is 3%.
4. Upon the adoption of HKFRS 16 "Leases", we recognise a right-of-use asset and a lease liability on the statement of financial position in respect of our leased factory. Subsequent to initial measurement and recognition, we depreciate the right-of-use asset over the lease term on a straight-line basis and the lease liability will be reduced for lease payments made and increased for interest cost on the lease liability.
5. The annual interest rate on lease liability is assumed to be 4.40%, which is based on prevailing market interest rate obtained through quotation from one of our principal banks.
6. "Others" refer to the costs in relation to the ownership of the factory, including property tax and others.
7. "One-off costs associated with the acquisition" refer to stamp duty, legal cost, valuation fee and others.

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As such, our Directors are of the view that as compared with the Leasing Approach, the Acquisition Approach allows us to (i) achieve annual net cost savings in profit and loss of approximately RMB0.4 million to RMB2.5 million, and (ii) focus our resources on the operation and production without suffering from the risk of any unfavourable fluctuation of rental expenses, which is unrelated to our ordinary course of business. In light of the above, our Directors are of the view that acquiring a property is more preferable than leasing a property for the New Malaysia Factory.

As at the Latest Practicable Date, we had not identified any property to acquire for our New Malaysia Factory. However, we are in the process of inspecting the possible targets of, and obtaining quotations for, several properties that are within our intended price range and are suitable for our acquisition purpose. In selecting the appropriate site, we will take into account factors such as the price for acquiring the property, site area, proximity to port facilities and transportation infrastructure adjacent to property. We do not anticipate any material difficulty in acquiring suitable site for our expansion plan.

Subject to the acquisition of a suitable factory site and building and the relevant permits being obtained in time, relocation of our production facility in Malaysia is expected to commence by July 2021 and complete in or around August 2021, and the New Malaysia Factory is expected to commence operation by October 2021.

Additional machinery

We have contracted to acquire the following additional machinery at our Malaysia Factory as a result of relocation of certain warehousing functions to the Additional Warehouse:

Production steps	Machinery	Estimated unit price (RM)	Unit	Estimated total cost (RM)
<i>Cleanroom wall and ceiling systems</i>				
Adhesive preparation, assembly of core and skin	Oven vacuum table system for manufacturing honeycomb panel	27,250	2	54,500
	Other panel platform and press table for rockwool and panel manufacturing	60,500	2	121,000
All production steps	Forklift	84,850	1	<u>84,850</u>
Total				<u><u>260,350</u></u>

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The above additional machinery will be relocated to the New Malaysia Factory and integrated to other additional machinery we intend to acquire, in order to set up the New Malaysia Factory to expand our production capacity:

Production steps	Machinery	Estimated unit price (RM)	Unit	Estimated total cost (RM)
<i>Cleanroom wall and ceiling systems</i>				
Panel cutting	Double saw cutting machine	90,000	1	90,000
	Vertical saw cutting machine	30,000	1	30,000
All production steps	Fabrication tooling, racking system and workstation	121,000	1	121,000
				241,000
<i>Cleanroom equipment</i>				
Metal sheet processing	Laser turret combi punch press	910,000	1	910,000
	Robot welding machine for raised floor pedestal fabrication work	115,000	1	115,000
	CNC hydraulic press brake	181,500	2	363,000
	Toolings for all 2 sets of press brake	–	–	36,300
	Hydraulic shearing machine	70,000	2	140,000
Assembly of metal and electrical parts	Tungsten inert gas welding machine	15,000	2	30,000
	Metal inert gas Welding machine	15,000	2	30,000
Quality control and testing	FFU and cleanroom equipment testing instrument:			
	(i) aerosol particle counter	60,500	1	60,500
	(ii) sound level meter and electrical testing instrument	6,050	1	6,050
	(iii) balometer kit	18,150	2	36,300
All production steps	Additional tooling parts	900	30	27,000
	Fabrication tooling, racking system and workstation	121,000	1	121,000
	Forklift	84,850	1	84,850
				1,960,000
Total				2,201,000

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Expected utilisation rate of our New Malaysia Factory

The following table sets out the expected utilisation rate of our New Malaysia Factory after the implementation of our above expansion plan:

	2021 (October to December)
<i>Cleanroom walls and ceilings</i>	
– Theoretical capacity (sq.m.) ⁽¹⁾	21,700
– Expected production volume (sq.m.) ⁽²⁾	16,950
– Utilisation rate ⁽³⁾	78.1%
<i>Cleanroom Equipment</i>	
– Theoretical capacity (pieces) ⁽⁴⁾	2,930
– Expected production volume (pieces) ⁽²⁾	2,300
– Utilisation rate ⁽³⁾	78.5%

Notes:

- (1) It is assumed that the New Malaysia Factory will commence production by October 2021. The production capacity for our cleanroom wall and ceilings for any period refers to the theoretical maximum area (in sq.m.) of panels it can produce, assuming 8 working hours per day and 264 working days per year. We estimate the daily production of panels will increase to an average of 328 sq.m..
- (2) The expected production volume (“**Expected Malaysia Production Volume**”) is estimated based on: (i) our historical performance; (ii) the assumption that full operation of the New Malaysia Factory will commence by October 2021; (iii) the assumption that growth of the cleanroom facility market in Southeast Asia will be in line with the expected growth set out in the section “Industry Overview — Market Size of Cleanroom Facility Market in Southeast Asia”; and (iv) we being able to implement our strategies and business plans to be engaged in additional cleanroom contracts, namely the Potential SEA Contracts in 2021, as set out above.
- (3) Utilisation rate equals to actual production volume of products divided by theoretical maximum production capacity.
- (4) Production capacity for our cleanroom equipment products for our New Malaysia Factory during a period refers to the theoretical maximum number of equipment it can produce, assuming 8 working hours per day and 264 working days per year.
- (5) The expected utilisation rates relate to future events and are estimated based on assumptions that may not remain valid for the whole period up to 31 December 2021, or at all, there is no assurance as to how closely the actual utilisation rates are for the above mentioned period.

The total investment costs and capital expenditure for the above expansion plans are expected to be approximately RM38.6 million (i.e. approximately HK\$73.0 million), comprising the following:

- (i) approximately RM32.0 million (i.e. approximately HK\$60.5 million) for the acquisition of a factory building;
- (ii) approximately RM4.4 million (i.e. approximately HK\$8.3 million) for renovation, refurbishment and setting up of the New Malaysia Factory; and

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- (iii) approximately RM2.2 million (i.e. approximately HK\$4.2 million) for acquisition of the machineries set out above.

The total investment costs and capital expenditure of RM38.6 million (i.e. approximately HK\$73.0 million) are expected to be funded by the following means:

- (i) the acquisition costs for the New Malaysia Factory of approximately RM32.0 million (i.e. approximately HK\$60.5 million) will be funded:
 - (a) approximately RM7.9 million (i.e. approximately HK\$15.0 million) by the net proceeds from the Global Offering; and
 - (b) approximately RM24.1 million (i.e. approximately HK\$45.5 million) by our internal resources and a mortgage loan on the New Malaysia Factory;
- (ii) the renovation, refurbishment and setting up costs of approximately RM4.4 million (i.e. approximately HK\$8.3 million) will be funded:
 - (a) approximately RM1.8 million (i.e. approximately HK\$3.3 million) by the net proceeds from the Global Offering; and
 - (b) approximately RM2.6 million (i.e. approximately HK\$5.0 million) by our internal resources; and
- (iii) the acquisition of machineries in the amount of approximately RM2.2 million (i.e. approximately HK\$4.2 million) will be funded:
 - (a) approximately RM1.8 million (i.e. approximately HK\$3.5 million) by the net proceeds from the Global Offering; and
 - (b) approximately RM0.4 million (i.e. approximately HK\$0.7 million) by our internal resources;

The above costs and capital expenditure for our New Malaysia Factory are expected to be incurred by 2021.

We intend to sell our existing Malaysia factory after the completion of the New Malaysia Factory, and intend to use the sale proceeds, after repaying the existing mortgage loan, of approximately RM6.8 million for our general working capital.

Strategies to Enhance our R&D and Sales Functions

Continue to invest in research and development to enhance existing products and diversify our product offering

We plan to continue to invest in our R&D activities to enhance our existing products and diversify our products to cater for the needs of cleanrooms for more industries. We have pursued continuous improvement of our product design to keep them abreast of industry technology in order to maintain our competitiveness. For example, during the Track Record Period, in addition to R&D activities to customise our products to fit customers' specific requirements, we have also conducted a number of R&D projects either in-house or through collaboration with external research institutions.

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For FY2017, FY2018, FY2019 and 3M2020, we incurred R&D expenses of approximately RMB6.1 million, RMB5.4 million, RMB6.2 million and RMB0.9 million, respectively, representing approximately 4.4%, 3.0%, 3.0% and 3.4% of our revenue, respectively. Our investment in R&D activities has yielded 29 registered patents and one pending patent application in the PRC as at the Latest Practicable Date.

Going forward, to support our strategy to diversify industry coverage of our customer base and continue to enhance our products functionality, we plan to conduct the following R&D plans:

Target sector	R&D plan	Cost allocation (RMB)		
		2020	2021	2022
LED/LCD display, semiconductor, electrical and electronic products	1 Improve FFU control system for larger scale cleanrooms with wireless network monitoring and control system	100,000	400,000	60,000
	2 Enhance FFU functionality and performance to achieve lower noise level, slimmer design and higher airflow	50,000	150,000	—
LED/LCD display	1 Develop high wall system to penetrate into LED/LCD display or puller manufacturing facility market	—	750,000	680,000
	2 Develop more economical ceiling systems for LED/LCD display market	150,000	350,000	490,000
Semiconductor	Develop new door and wall systems to meet the requirements of new wafer fabrication facility	400,000	1,270,000	980,000
Pharmaceutical	Develop new ceiling systems for GMP standard cleanroom	50,000	200,000	490,000
All cleanroom markets	Improve the overall design and performance of our air shower to achieve explosion proof, sleeker outlook, higher air flow and lower cost	50,000	350,000	100,000
	Develop control softwares for cleanroom door and window systems	50,000	350,000	200,000
	Sub-total	850,000	3,820,000	3,000,000

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In addition to the R&D plans set out above, we also plan to strengthen our R&D capability and protect our R&D results by adopting the following measures:

R&D plans/Products expected to be developed	Estimated costs (RMB)		
	2020	2021	2022
1. Hiring of three building information modelling (BIM) engineers to develop 3-D modelling of new products during R&D and product development process	240,000	1,010,000	1,030,000
2. Hiring of three R&D engineers to optimise design and lower the cost of production of cleanroom equipment	200,000	800,000	800,000
3. Testing platform and testing racking for performance and structural testing for wall and ceiling systems	370,000	30,000	30,000
4. Setting up a class 100 cleanroom of 200 sq.m. in our Second PRC Factory for simulation of actual operation condition in performance testing. The cleanroom can also be used for final cleaning and packaging area for products to be used in high-end cleanroom	–	3,500,000	–
5. Setting up a R&D laboratory, an anechoic room and a testing chamber with equipment in our Second PRC Factory to house our R&D department	–	500,000	200,000
6. Obtaining and maintaining accreditation or performance test reports for our products by engaging third party laboratories for performance testing	120,000	520,000	380,000
7. Obtaining FM certification for our FFU	–	–	600,000
Sub-total:	<u>930,000</u>	<u>6,360,000</u>	<u>3,040,000</u>
Total	<u>1,780,000</u>	<u>10,180,000</u>	<u>6,040,000</u>

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The aggregate R&D expenses expected to be incurred for the R&D plans set out above for 2020, 2021 and 2022 are approximately RMB18.0 million (i.e. approximately HK\$20.3 million). The above R&D plans and expenses are based on our Directors' estimation based on their knowledge and information and is subject to adjustment. We expect to fund the above research and development expenses by:

- (i) approximately RMB6.6 million (i.e. approximately HK\$7.5 million) of the net proceeds from the Global Offering; and
- (ii) approximately RMB11.4 million (i.e. approximately HK\$12.8 million) by our internal resources.

Expanding our sales and marketing network and enhancing our business support functions

In line with our strategy to capture the growth opportunities in the PRC and expand our customer base in terms of industry coverage, we plan to expand our sales and marketing teams to capture the potential business in the PRC and Southeast Asia and provide better services to our customers. We also plan to enhance our engineering and administration functions so that we can provide better services to our customers and support our operational needs to grow our business. To this end, we plan to adopt the following measures:

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- (i) hiring two additional sales and marketing managers in 2020 and two in 2021, with additional staff costs for the first two years estimated to be approximately RMB3.2 million (i.e. approximately HK\$3.6 million);
- (ii) hiring three additional engineers or technicians in 2020 and four in 2021, with additional staff costs for the first two years estimated to be approximately RMB3.4 million (i.e. approximately HK\$3.8 million);
- (iii) hiring two additional administrative and accounting staff members in 2020 and three in 2021, with additional staff costs for the first two years estimated to be approximately RMB2.2 million (i.e. approximately HK\$2.5 million); and
- (iv) acquiring an enterprise resources planning system (“**ERP system**”) and upgrading our information technology systems to be fully integrated with our accounting system in the PRC for better financial management and resources monitoring at approximately RMB0.3 million (i.e. approximately HK\$0.3 million).

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- (i) hiring three additional sales and marketing managers in 2021, with additional staff costs for the first two years estimated at approximately RM1.3 million (i.e. approximately HK\$2.4 million);
- (ii) hiring four additional engineers or technicians in 2021, with additional staff costs for the first two years estimated at approximately RM1.0 million (i.e. approximately HK\$1.8 million);
- (iii) hiring three additional administrative and accounting staff members in 2021, with additional staff costs for the first two years estimated at approximately RM0.8 million (i.e. approximately HK\$1.4 million).

The costs of hiring of additional staff, the acquisition of the ERP system and the upgrading of our information technology systems of approximately HK\$15.8 million are expected to be funded by the following means:

- (i) the hiring of additional staff in PRC of approximately RMB8.8 million (i.e. approximately HK\$9.9 million) will be funded:
 - (a) approximately RMB4.4 million (i.e. approximately HK\$4.8 million) by the net proceeds from the Global Offering; and
 - (b) approximately RMB4.4 million (i.e. approximately HK\$5.1 million) by our internal resources;
- (ii) the hiring of additional staff in Malaysia of approximately RM3.0 million (i.e. approximately HK\$5.6 million) will be funded:
 - (a) approximately RM1.5 million (i.e. approximately HK\$2.7 million) by the net proceeds from the Global Offering; and
 - (b) approximately RM1.5 million (i.e. approximately HK\$2.9 million) by our internal resources;
- (iii) the acquisition of ERP system and the upgrade of our information technology systems of approximately RMB0.3 million (i.e. approximately HK\$0.3 million) will be funded by the net proceeds from the Global Offering.

We may also set up sales offices in the PRC and regional offices in Southeast Asia according to our business needs in the future. In such event, we will fund the set up costs with our internal resources.

Breakeven period and investment payback period

We consider that a new production facility achieves breakeven when its monthly revenue is able to cover its monthly costs and expenses on an accounting basis. The time required to achieve breakeven varies depending on a number of factors, including the general economic and market conditions, market competition, prices of raw materials and the other costs of production. Based on estimated monthly revenue and monthly costs and expenses, it is estimated that our Second PRC Factory and New Malaysia Factory will achieve its breakeven point in its first month of operation. The breakeven period was calculated based on the expected monthly revenue and costs which were estimated taking into account (i) our historical revenue and costs recorded during the Track Record Period; (ii) our historical revenue annual growth rate of approximately 10.2% to 28.4% for FY2017 to FY2019; (iii) the expected growth in the cleanroom walls and ceilings and cleanroom equipment market in the PRC and Southeast Asia as set out in “Industry Overview”; (iv) the Potential PRC Contracts and the Potential SEA Contracts in 2021 set out above; and (v) the expected increase in depreciation and staff costs associated with the new factory owing to the additional machinery to be acquired, including additional machinery which we have contracted to acquire at our Malaysia Factory as a result of relocation of certain warehousing functions to the Additional Warehouse and will be subsequently relocated to the New Malaysia Factory and integrated to other additional machinery we intend to acquire for the New Malaysia Factory, and staff to be hired.

We consider that a new production facility achieves investment payback when the net cash flow generated by the new production facility since the commencement of its operation is able to cover the total investment amount. The estimated investment payback period for our Second PRC Factory and New Malaysia Factory are approximately 3.3 years and 4.4 years, respectively, estimated based on the assumption that the revenue will increase in line with the overall business growth and there will be no material impact on the business and operating results of the new production facilities throughout the operation periods. The investment payback period was calculated based on the expected annual cash inflow and outflow which were determined taking into account the same factors as those for the breakeven period as set out above excluding the depreciation as it does not have any cash flow effect. The time required to achieve investment payback varies depending on various factors, including (i) the capital investment such as costs of machinery and equipment; (ii) the potential demand from the markets which the Second PRC Factory and New Malaysia Factory are targeted to support as set out above; and (iii) level of profitability achieved.

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Summary of timeline for implementation of our business strategies

We set forth below a summary of the timeline for implementation of our business strategies as disclosed above:

	FY2020	FY2021	FY2022	Total
	HK\$	HK\$	HK\$	HK\$
	(million)	(million)	(million)	(million)
Expected use of proceeds				
(1) PRC				
Expansion and renovation of our PRC production facilities				
– Leasing the premises for Second PRC Factory for an initial term of three years	0.9	3.7	3.7	9.2 ^(Note)
– Renovation of existing PRC office and factory and setting up Second PRC Factory	4.3			4.3
– Acquisition of additional machinery for cleanroom walls and ceilings and cleanroom equipment production in the PRC		7.8		7.8
	<u>5.2</u>	<u>11.5</u>	<u>3.7</u>	<u>21.3^(Note)</u>
Sub-total				
(2) Southeast Asia				
Expansion of our production facilities in Malaysia				
– Acquisition of a site and factory building for our New Malaysia Factory		15.0		15.0
– Relocation of our production facility to the New Malaysia Factory, and renovation, refurbishment and setting up the New Malaysia Factory		3.3		3.3
– Acquisition of additional machinery for cleanroom walls and ceilings and cleanroom equipment production in Malaysia		3.5		3.5
		<u>21.8</u>		<u>21.8</u>
Sub-total				

BUSINESS

	FY2020 HK\$ (million)	FY2021 HK\$ (million)	FY2022 HK\$ (million)	Total HK\$ (million)
(3) Strengthening our sales and marketing network, and enhancing our engineering and business support functions				
– PRC				
• Hiring additional sales and marketing managers	0.2	1.5		1.7
• Hiring additional engineers or technicians	0.2	1.7		1.9
– Malaysia				
• Hiring additional sales and marketing managers		1.2		1.2
• Hiring additional engineers or technicians		0.8		0.8
Sub-total	0.4	5.2		5.6
(4) Strengthening accounts and administration functions and upgrading information technology systems				
– Hiring additional administrative and accounting staff members				
– PRC	0.1	1.1		1.2
– Malaysia		0.7		0.7
– Acquisition of an enterprise resources planning system and upgrading our information technology system	0.3			0.3
Sub-total	0.4	1.8		2.2
(5) R&D projects to enhance existing products and diversify our product offering		← 7.5 →		7.5
(6) General working capital		← 4.3 →		4.3
TOTAL				62.7

Note: The figure represents the estimated amount of rent for the premise from October 2020 onwards, taking into account the time for identifying and leasing the suitable premises. We expect to rent the premise for an initial term of three years from October 2020 to September 2023 and as such, we expect to incur approximately HK\$0.9 million for the lease of the premise in FY2023.

BUSINESS MODEL

We principally generate our revenue from (i) the manufacturing and providing installation services for cleanroom wall and ceiling systems (including cleanroom doors and windows which revenue generated are recognised over time, generally by stages in accordance to completion); and (ii) the manufacturing and sale of cleanroom wall and ceiling systems (without installation) and equipment (including mainly fan filter units, air showers, pass boxes, HEPA boxes and clean booths/benches which revenue generated are recognised at a point in time). Our cleanroom wall

BUSINESS

and ceiling systems are manufactured and sold under our “Channel Systems” brand, while our cleanroom equipment are manufactured and sold under our “Micron” brand.

We supply a comprehensive range of cleanroom wall and ceiling systems and cleanroom equipment based on the customers’ needs. Our products are utilised in a wide variety of production facilities, industries and medical environments, such as cleanrooms for manufacturing semiconductor and pharmaceutical products. Our major customers are main contractors and cleanroom design and engineering companies. During the Track Record Period, we supplied our cleanroom products and services mainly in the PRC, Malaysia, the Philippines and Singapore.

Ancillary to our major businesses of supplying cleanroom wall and ceiling systems and cleanroom equipment, we also trade cleanroom equipment of third-party brands (mainly being raised floor systems) and provide cleanroom preventive maintenance services, which in aggregate generated approximately 5.0% to 10.9% of our revenue during the Track Record Period. We believe these ancillary businesses supplement our major businesses, allowing us to offer ancillary services and supply products that we do not manufacture to our customers.

Our customers may require us to supply our products to them with or without installation service. Where we are required to provide our products only, we recognise revenue upon delivery of our products. Where we are engaged for cleanroom projects, revenue is generally recognised over time, by stages in accordance to completion ratio. Revenue from cleanroom projects accounted for 39.4%, 55.9%, 69.2% and 65.2% of our total revenue for FY2017, FY2018, FY2019 and 3M2020, respectively.

The table below shows the breakdown of our revenue by nature of contract for the periods indicated.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	<i>RMB'000</i>	% <i>RMB'000</i>	<i>RMB'000</i>	% <i>RMB'000</i>	<i>RMB'000</i>	% <i>RMB'000</i>	<i>RMB'000</i>	% <i>RMB'000</i>	<i>RMB'000</i>	%
	(unaudited)									
Cleanroom projects	54,534	39.4	99,245	55.9	142,736	69.2	33,483	69.4	17,360	65.2
Sales of goods	83,735	60.6	78,303	44.1	63,433	30.8	14,756	30.6	9,276	34.8
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

During the Track Record Period, we obtained cleanroom projects either by way of tenders or quotation invitations. For FY2017, FY2018, FY2019 and 3M2020, our success rate in respect of acceptance of our tenders were approximately 72.7%, 72.0%, 69.2% and 87.5%, respectively.

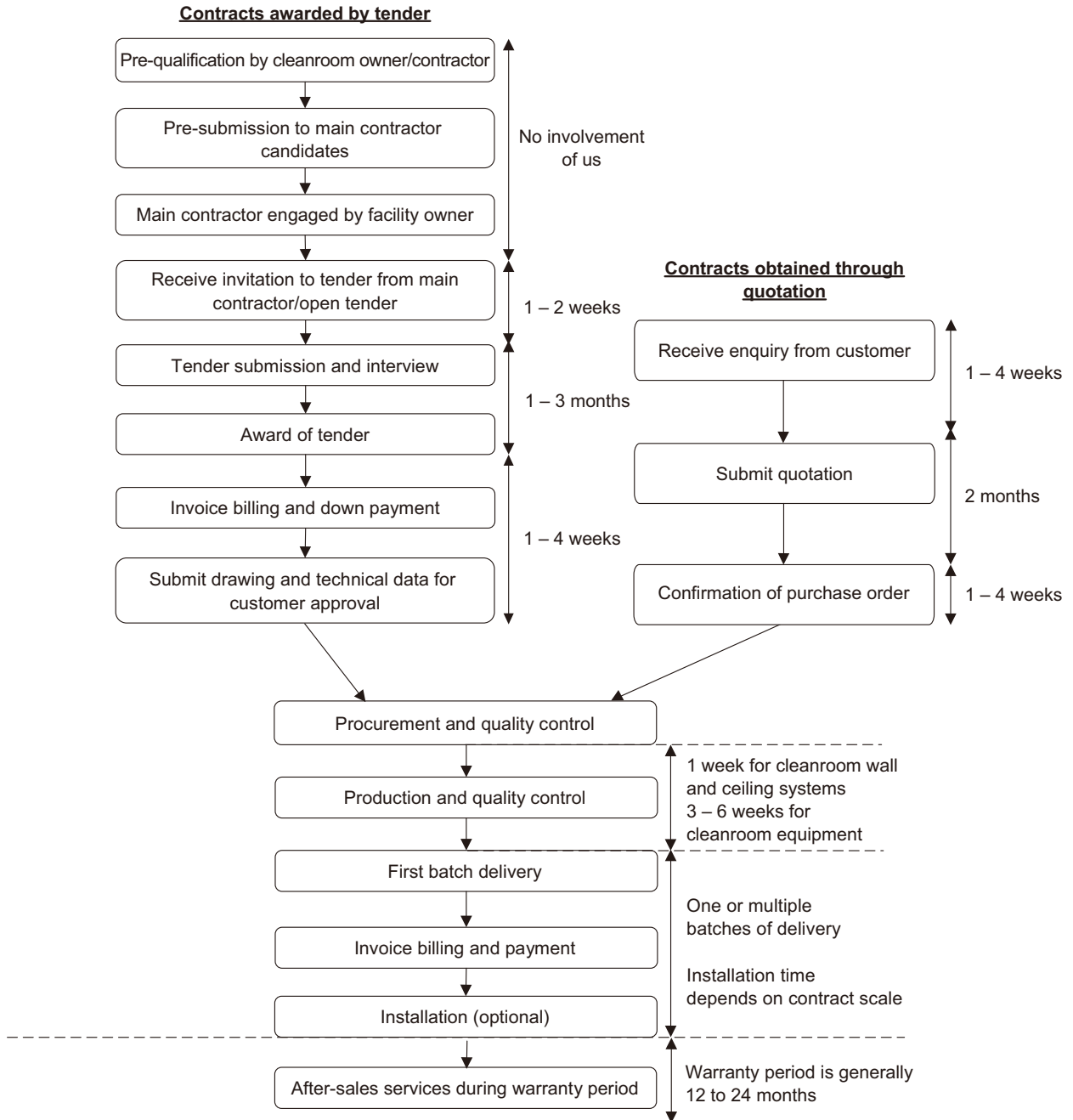
Business Processes

Typically, we obtain new business by submitting tenders or quotations to our customers upon receiving information of the potential contracts or orders.

BUSINESS

Our business processes

Depending on the business practice of the relevant main contractor and cleanroom facility owner, we may obtain contracts through tender, or provide fee quotation according to the request for quotation for new contracts. The diagram below illustrates our typical business process:



For contracts awarded by tender

Main contractor tender

Based on our experience, cleanroom facility owners and main contractors generally only allow their pre-approved suppliers to submit tender for their new projects.

We are generally required to undergo a qualification process to become a pre-approved supplier of cleanroom facility owners or main contractors for tender invitations before we are engaged in their projects for the first time, which typically includes attending meetings with them, submission of laboratory test reports and certification, and our track record project lists to the facility owner or main contractor. After the successful completion of the qualification process, the customers will include us on their list of pre-approved suppliers, and we will provide the price quotation or tender submission for the relevant projects. Once we become a pre-approved supplier of our customers, we generally do not need to go through the above process again for tender invitations. Tender process of a cleanroom project typically begins with the main contractor candidates tendering for the overall contract. Where we are in the approved supplier list of the new cleanroom facility owner, we may be requested by the main contractor candidates to make a pre-submission of our tentative price, quantity, product specifications and other material terms to them. We may make pre-submission to a number of main contractor candidates to increase our chance to win the contract.

Supplier tender

When the main contractor for the new cleanroom project is selected, it will conduct a tender for various aspects of the cleanroom project, including cleanroom wall and ceiling systems and/or cleanroom equipment, which may be in the form of invitation to tender to pre-approved suppliers, or an open tender. We generally have one to two weeks to study the drawings, conduct site survey, understand the requirement and design, and make tender submission.

In the process of preparing our pre-submission or tender submission, we conduct costing estimation and review the cleanroom design and floor plan, and may suggest modifications to the main contractor as appropriate. Results of tender are generally announced within one to three months after close of tender.

For contracts obtained through quotation

Receive enquiry from customer

When we receive request for quotation or enquiries from potential customers, we will prepare and provide our quotation for its review.

Submit quotation

We are generally required to submit quotation within one to four weeks of receiving the enquiry. We will submit the technical drawing, specification, quantity, lead time and price for customers' approval.

BUSINESS

Execution

Where we are awarded the contract, we will submit the finalised technical drawing and specification for customer's confirmation and our procurement and production planning are based on the confirmed specification. For cleanroom projects, we generally charge our customers based on the percentage completed of work at various stages of the cleanroom installation process, and we may require advance payment from the customer on case-by-case basis.

We procure raw materials and start production planning for the contract. Our suppliers are mainly suppliers of components for cleanroom, aluminium and steel coil. For details of our procurement and suppliers, see "Raw materials, Suppliers and Subcontractors" in this section.

We manufacture our products in our PRC Factory and Malaysia Factory. We procure pre-processed metal sheet for our production. Due to limited factory space, we reserve our production capacity for producing high-end wall products (i.e. those that are crucial for meeting of relevant cleanroom standard requirements) and procure finished low-end wall products (i.e. those that are non-crucial for meeting relevant cleanroom standard) from third parties to meet the contract requirements. For details of our production, see "Production" in this section.

It generally takes around one to two weeks from arrival of raw materials to produce the first batch of cleanroom wall and ceiling systems, and around three to six weeks to produce the first batch of cleanroom equipment for delivery. We engage third-party logistic agents for delivery of our products. Where we purchase goods and components from suppliers to fulfil part of our order, we may arrange direct shipping from that supplier to our customers. If we supply our products without installation services, we recognise the revenue when the products are delivered to our customers.

Installation service is provided at the option of our customers and we engage third-party contractors for the installation work at the cleanroom construction site. In such cases, revenue is recognised over time, and invoice is issued based on completion ratio as agreed and stated in the contract.

We provide after-sales services for our products during warranty period.

OUR PROJECTS

During the Track Record Period, we generated approximately 39% to 69% of our revenue from cleanroom projects, where we are engaged as a cleanroom products supplier (for cleanroom wall and ceiling systems and/or cleanroom equipment) on a project basis with installation service, and collect our revenue by progressive payments based on completion ratio or meeting of milestones of the project. We assign designated staff to take charge of each project, which includes our own procurement, manufacturing and installation planning, perform site inspection, progress monitoring and prepare operation manual. We engage third party contractors to perform installation work in at the project site and we monitor performance of those contractors on site from time to time.

BUSINESS

The table below shows the breakdown of our revenue by nature of contracts for the periods indicated.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000
	(unaudited)									
Cleanroom projects	54,534	39.4	99,245	55.9	142,736	69.2	33,483	69.4	17,360	65.2
Sales of goods	83,735	60.6	78,303	44.1	63,433	30.8	14,756	30.6	9,276	34.8
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

During the Track Record Period and up to the Latest Practicable Date, we did not have any material loss-making contract.

During the Track Record Period, we had 21 completed and ongoing cleanroom projects, each with contract value over RMB5.0 million, with a total contract value of over RMB300 million. After the Track Record Period and up to the Latest Practicable Date, we had seven cleanroom projects (with contract value over RMB5.0 million) carried forward from 3M2020, with an aggregate contract value of approximately RMB134.8 million. We also had six projects (with contract value over RMB5 million), which were commenced or expected to be commenced after 31 March 2020, with an aggregate contract value of approximately RMB60.2 million. As disclosed under “Business — Recent Outbreak of COVID-19 — Our ongoing projects and business operations — (b) Our projects”, our ongoing projects and projects to be commenced had experienced varying degree of delays to the completion schedules due to the outbreak of COVID-19. We had reached mutual agreement with our customers on the current project schedules, and to the best of our Directors knowledge, none of our customers had indicated they would penalize us for such delay.

Our cleanroom project backlog

The following table sets out the movement of the number of our cleanroom projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017	FY2018	FY2019	3M2020	From 1 April 2020 to the Latest Practicable Date
Opening number of cleanroom projects	11	11	14	12	13
Number of new cleanroom projects awarded	36	36	32	2	6
Number of substantially completed cleanroom projects	(36)	(33)	(34)	(1)	(9)
Ending number of projects	11	14	12	13	10

BUSINESS

The following table sets out the movement of backlog of our cleanroom projects during the Track Record Period and up to the Latest Practicable Date:

	FY2017	FY2018	FY2019	3M2020	From 1 April 2020 to the Latest Practicable Date
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening contract value brought forward from last year/period	15,325	48,917	46,845	81,343	72,652
Awarded contract sum of new cleanroom projects ⁽¹⁾	87,024	87,826	157,248	4,528	44,382
Variation orders	1,102	9,347	19,986	4,141	3,159
Revenue recognised ⁽²⁾	<u>(54,534)</u>	<u>(99,245)</u>	<u>(142,736)</u>	<u>(17,360)</u>	<u>(20,660)</u>
Ending contract value on hand as at the year/period end date	<u>48,917</u>	<u>46,845</u>	<u>81,343</u>	<u>72,652</u>	<u>99,533</u>

Note:

1. The awarded contract sum of new projects for FY2017, FY2018, FY2019 and 3M2020 is the aggregate amount of original contract sum based on the initial agreement between our customer and us and does not include additions or modifications due to subsequent variation orders, and, as such, the final revenue recognised from a contract may differ from the awarded contract sum. The aggregate amount of original contract sum of new cleanroom projects for the period from 1 April 2020 to the Latest Practicable Date is the aggregate amount of original contract sum of such contracts specified in the contracts.
2. The revenue recognised represents our revenue derived from cleanroom projects during the Track Record Period and from 1 April 2020 to 30 June 2020.

BUSINESS

Completed and ongoing projects (each with contract value over RMB5.0 million) during the Track Record Period

The following table sets out the details of our completed and ongoing projects, each with contract value over RMB5.0 million, during the Track Record Period (i.e. up to 31 March 2020):

Facility and location ⁽¹⁾	Commencement date	Completion date / Expected completion date	Contract value ⁽²⁾ (RMB million)	Revenue recognised during the Track Record Period				Revenue recognised/ estimated to be recognised for the nine months ending 31 December 2020 (RMB million)	FY2021 (RMB million)
				FY2017 (RMB million)	FY2018 (RMB million)	FY2019 (RMB million)	3M2020 (RMB million)		
1. Semiconductor product manufacturing facility in Beijing, the PRC	January 2016	January 2017	5.62	0.18	-	-	-	-	-
2. LED/LCD display manufacturing facility in Kunshan, the PRC	January 2016	December 2017	23.78	3.18	-	-	-	-	-
3. Semiconductor product manufacturing facility in Beijing, the PRC	November 2017	October 2018	14.27	11.24	3.03	-	-	-	-
4. Semiconductor product manufacturing facility in Dalian, the PRC	November 2017	July 2018	45.77	12.03	33.74	-	-	-	-
5. Semiconductor product manufacturing facility in Beijing and Shanghai, the PRC	December 2017	August 2018	20.18	2.16	17.94	0.08	-	-	-
6. Semiconductor product manufacturing facility in Wuzhan, the PRC	January 2018	July 2018	11.45	-	10.64	0.81	-	-	-
7. Semiconductor product manufacturing facility in Tiajin, the PRC	May 2018	March 2019	10.95	-	10.67	0.28	-	-	-
8. Semiconductor product manufacturing facility in Melaka, Malaysia	October 2017	January 2018	5.62	5.62	-	-	-	-	-

BUSINESS

Facility and location ⁽¹⁾	Commencement date	Completion date / Expected completion date	Contract value ⁽²⁾ (RMB million)	Revenue recognised during the Track Record Period				Revenue recognised/ estimated to be recognised for the nine months ending 31 December 2020 (RMB million)	FY2021 (RMB million)
				FY2017 (RMB million)	FY2018 (RMB million)	FY2019 (RMB million)	3M2020 (RMB million)		
9. Semiconductor product manufacturing facility in Kulim, Malaysia	March 2017	August 2017	9.19	9.19	-	-	-	-	-
10. Semiconductor product manufacturing facility in Wutuan, the PRC	October 2018	March 2019	7.88	-	6.95	0.93	-	-	-
11. Semiconductor product manufacturing facility in Shanghai, the PRC	January 2019	June 2019	20.14	-	-	20.14	-	-	-
12. Semiconductor product manufacturing facility in Kulim, Malaysia	April 2019	July 2020	7.14	-	-	6.91	0.18	0.05	-
13. Semiconductor product manufacturing facility in Wuxi, the PRC	January 2019	December 2019	28.22	-	-	28.22	-	-	-
14. Semiconductor product manufacturing facility in Xuzhou, the PRC	June 2019	August 2020	11.99	-	-	11.31	0.63	0.05	-
15. Semiconductor product manufacturing facility in Kulim, Malaysia	July 2019	July 2020	28.66	-	-	27.46	1.17	0.03	-
16. Semiconductor product manufacturing facility in Shaoxing, the PRC	July 2019	October 2019	9.26	-	-	9.26	-	-	-
17. Semiconductor product manufacturing facility in Shanghai, the PRC	September 2019	December 2019	5.15	-	-	5.15	-	-	-
18. Semiconductor product manufacturing facility in Shanghai, the PRC	November 2019	September 2020	8.65	-	-	4.48	0.93	3.24	-
19. Monocrystalline silicon material manufacturing facility in Inner Mongolia, the PRC	November 2019	December 2020	28.86	-	-	12.74	4.14	11.98	-

BUSINESS

Facility and location ⁽¹⁾	Commencement date	Completion date / Expected completion date	Contract value ⁽²⁾ (RMB million)	Revenue recognised during the Track Record Period			Revenue recognised/ estimated to be recognised for the nine months ending 31 December 2020 (RMB million)	FY2021 (RMB million)
				FY2017 (RMB million)	FY2018 (RMB million)	FY2019 (RMB million)		
20. Semiconductor facility in Beijing, the PRC	December 2019	August 2020	6.89	-	-	3.11	3.07	0.71
21. Data centre facility project in Singapore	January 2020	June 2021	42.6	-	-	-	6.46	23.54
Total:				352.27				

Notes:

1. Location of the project is based on the delivery address on the delivery note.
2. Contract value of the projects stated above took into account additional works or variation orders (if any) certified by the customers.

BUSINESS

New Projects (each with contract value over RMB5.0 million) to be commenced after 31 March 2020 and up to the Latest Practicable Date

As at the Latest Practicable Date, we had the following projects that were commenced or expected to be commenced after 31 March 2020, with contract value over RMB5.0 million:

Facility and location	Actual/expected commencement date	Expected completion date	Contract Value (RMB million)	Revenue expected to be recognised after the Track Record Period	
				FY2020 (RMB million)	FY2021 (RMB million)
1. Semiconductor product manufacturing facility in Shanghai, the PRC	April 2020	September 2020	5.31	5.31	–
2. Semiconductor product manufacturing facility in Beijing, the PRC	May 2020	September 2020	5.28	5.28	–
3. Semiconductor product manufacturing facility in Wuhan, the PRC	May 2020	November 2020	10.35	10.35	–
4. Testing and assembly facility in Chengdu, PRC	June 2020 ^(Note)	December 2020	13.04	13.04	–
5. Semiconductor product manufacturing facility in Chongqing, the PRC	August 2020	March 2021	18.54	13.03	5.51
6. Semiconductor product manufacturing facility in Shaoxing, the PRC	August 2020	November 2020	7.72	7.72	–
Total:			60.24		

Note: The contract was awarded in September 2019 but the project work only commenced in June 2020 as the civil structure construction was delayed by certain change in design as well as the outbreak of COVID-19, which in turn pushed back our cleanroom portion by approximately 2.5 months to June 2020, and the overall completion by approximately 4 months to December 2020.

OUR PRODUCTS

Our products are used mainly in cleanroom, which is a contained environment installed with cleanroom wall and ceiling panels and equipped with equipment to reduce particulate contamination which may adversely affect the manufacturing or operation processes, and to control other environmental parameters such as temperature, humidity and pressure.

Depending on the application, cleanrooms are commonly classified under two sets of standards, namely the FED-STD-209E standard of the U.S. and the ISO 14644-1 Standard, which classify cleanrooms into a number of classes based on the concentration of particle count of specified sizes in the cleanroom. Cleanroom for manufacturing of semiconductor, electronic

BUSINESS

products, pharmaceutical as well as food and beverage and laboratories may adopt cleanroom of different classes under these two standards. In addition, for cleanroom used for production of pharmaceuticals, healthcare and medical products and food and beverage products, materials used to construct the cleanroom have to comply with the GMP standard on top of the FED-STD-209E standard or the ISO 14644-1 standard. Where harmful chemical and biological agents are expected to appear in a cleanroom, the cleanroom may also be classified into different safety levels according to the BSL standard in terms of its ability to contain such substances and protect personnel from potentially harmful pathogenic exposure. Examples of such cleanroom applications are manufacturing facilities for pharmaceutical products, medical devices, medical consumables and laboratories. For details on cleanroom classification and standards, see the section “Industry Overview”.

We are able to provide cleanroom wall and ceiling systems (comprising walls, ceilings, doors, windows and air exhaustion structures) and cleanroom equipment (such as fan filter units, air showers and pass boxes) through our comprehensive product portfolio that are highly customisable to meet a wide range of cleanroom requirements under different cleanroom standards. We also provide installation service for our products if requested by the customers. When installation service is provided in a project, the revenue of such project is recognised over time by stages in accordance to completion. In the case when our products are supplied without installation service, such revenue is recognised at a point in time.

Apart from supplying cleanroom products, we also engage in ancillary businesses including trading of cleanroom products (mainly raised floor systems) and provision of cleanroom preventive maintenance services. The revenue of trading of cleanroom products as recognised at a point in time whilst the revenue of maintenance services is recognised over time by stages during the maintenance period. These ancillary businesses in aggregate accounted for approximately 5.0% to 10.9% of our revenue during the Track Record Period.

We produce cleanroom products that meet the most stringent requirements of the highest class under relevant cleanroom standards, with a wide range of specification options for broad industrial application of lower cleanroom standards. During the Track Record Period, use of our products have been applied to different industries which require cleanroom facilities, ranging from semiconductor and electronics industries to pharmaceutical and life sciences industries.

Cleanroom Wall and Ceiling Systems

Cleanroom wall and ceiling systems mainly consist of walls, ceilings, doors, windows and air exhaustion structures, which are manufactured with our proprietary design and sold under our “Channel Systems” trademark. Our cleanroom wall and ceiling systems are generally FED-STD-209E Standard Class 1 and ISO 14644-1 Class ISO3 compatible, which represent a very stringent standard in the cleanroom industry and is often known as “semiconductor grade of cleanroom”. Meanwhile, these products are designed to be adaptable to specific customer needs and can be adjusted for lower grades of cleanroom standards or for other applications such as data centre.

BUSINESS

Set out below is a brief description of our principal cleanroom wall and ceiling system products:

Products

Characteristics

Illustrative photos

Walls

- Manufactured as a system, including the aluminium or metal support system and wall panels made of different materials: aluminium honeycomb, polyurethane, rockwool or polystyrene

Finished with pre-painted coated steel or aluminium skin with paint materials, which are capable of meeting various requirements for semiconductor and pharmaceutical industries

- Lightweight and capable of achieving zero-outgassing

Easily demountable and easy framing for quick installation



Ceilings

- Various types including walkable ceiling grid system and flush grid ceiling system which has concealed lighting

- Manufactured with extruded aluminium which provides maximum resistance against corrosion

Light and strong aluminium ceiling grid systems offering simple and flexible installation



BUSINESS

Products

Characteristics

Illustrative photos

Doors

- Two major types of doors, including flush type doors suitable for pharmaceutical industry, and aluminium doors suitable for semiconductor industry

Door windows and bottom panels can be dismantled and re-installed without interfering with the leaf frame

Manual or automatic, swinging or sliding doors

Supports accessories such as door handle, door closer, window glazing and lockset



Windows

- Two major types of windows, including double glazing windows with desiccant gel moisture free and suitable for pharmaceutical industry, and aluminium frame windows suitable for semiconductor industry

Supports easy installation and dismantling

Supports various types of glass, including acrylic, polycarbonate and wired glass



Cleanroom Equipment

We offer cleanroom equipment with principal products such as fan filter units, air showers, pass boxes, HEPA boxes, clean booths/benches, along with various accessories. We sell our cleanroom equipment under our “Micron” brand.

BUSINESS

Set out below is a brief description of our principal cleanroom equipment:

Products

Characteristics

Illustrative photos

Fan filter unit (FFU)

- Self-powered motorised fans for distribution of air through high-particulate air filter to cleanrooms

- Various sizes and options for different motors

- Can be individually controlled manually or with remote control and monitored via computer network system

- Suitable for high-end cleanroom class requirements with construction flexibility



Air shower

- Helps prevent cleanroom contamination by using air jet nozzles to blow off fine particles attached to garments and footwear prior to entrance to cleanroom and re-circulate clean air to the environment

- Helps control the cleanroom dust count

- Supports customisation of capacity per user's requirement based on cleanroom class and type

- Offers additional features including automated high speed shutter door and special sensors for operational sequence



BUSINESS

Products

Characteristics

Illustrative photos

Pass box

- Facilitates transfer of items in and out of the cleanroom and minimise human traffic
- Equipped with interlocking system to prevent contamination between non-cleanroom space and the cleanroom



HEPA filter box

- Designed for cleanrooms that require high flow and low particulate to achieve cleanliness
- Different sizes, depending on air volume capacity, pressure drop and filter efficiency
- Comes in various types of casing materials including stainless steel, powder coated and chemical resistant materials
- Supports accessories such as test probe, duct collar, dampers and monitoring devices



Clean booth / bench

- Enables the creation of a low-cost and small-space clean environment
 - Prevents localised contamination
 - Creates unidirectional clean laminar flow on the work bench
- Available in vertical or horizontal flow



BUSINESS

Product Life Span

Our cleanroom wall and ceiling systems have long product life-span and, under proper care and maintenance, generally do not have to be replaced. According to our Directors' experience, most of our cleanroom products have a life span of approximately 10 years under proper care and maintenance.

New Products

We plan to continue to enhance and customise our product portfolio to cater for the specifications and requirements of different industries and markets. See the paragraph "Our Strategies - Continue to invest in research and development to enhance existing products and diversify our product offering" above and the paragraph "Research and Development" below in this section for details.

Other Businesses

As our ancillary businesses, we also engage in the trading of cleanroom equipment of third party brands (mainly raised floor systems) and provision of cleanroom preventive maintenance services. These services are ancillary services complementary to our cleanroom wall and ceiling systems and cleanroom equipment business. For FY2017, FY2018, FY2019 and 3M2020, the aggregated revenue generated from such ancillary businesses was approximately RMB6.9 million, RMB9.4 million, RMB14.4 million and RMB2.9 million, representing approximately 5.0%, 5.3%, 7.0% and 10.9% of our total revenue, respectively.

We trade cleanroom products, which comprise mainly trading of raised floor systems and conductive flooring. We do not manufacture such products and source them from two reputable suppliers. Raised floor systems products that we trade are in compliance with ISO Class 3 cleanroom grade of critical cleanliness requirement. We supply solid, perforated and grating flooring systems as well as electrostatic dissipative and conductive PVC tiles, which attract and route static electricity charges away from valuable electronic equipment to enable compliance with electrostatic discharge requirement for cleanroom used for producing electronic products.

We provide preventive cleanroom maintenance services for cleanroom facilities. Our preventive maintenance services generally involve checking, cleaning and replacement of cleanroom equipment, including filters and blower fans, electronic control panels, doors and door interlocking systems, lighting and light bulbs and internal casing. We also supply consumable parts for replacement. We may provide maintenance service for cleanrooms, irrespective of whether they are installed by us.

SALES AND MARKETING

We sell and market our products and services directly to our customers, who are mainly main contractors and cleanroom design and engineering companies. According to the F&S Report, cleanroom standards such as FED-STD-209E, ISO 14644-1 and GMP are widely adopted in different countries. As our products comply with such standards, they can be used in cleanroom facilities adopting such standards, irrespective of their geographical locations. Therefore, when our customers who are main contractors and cleanroom design and engineering companies obtain new contracts in different locations, we may be invited to participate in the new cleanroom project and expand our business to new geographic locations.

BUSINESS

As at 31 March 2020, our sales team comprised of six sales staff, a majority of whom have cleanroom engineering background. We operate three sales offices in the PRC, Malaysia and the Philippines to capture business opportunities and handle orders obtained in their respective markets. Our Philippines office is mainly responsible for local enquiries, while our PRC office mainly serves the PRC market during the Track Record Period. Because of considerations such as pricing, costs, logistics and relationship with customers, our PRC office had also served customers in Vietnam and Saudi Arabia during the Track Record Period, but the PRC local market remains to be its focus. Our sales team in our Malaysia sales office was responsible for the Malaysian market and other Southeast Asian and overseas markets, such as Thailand, Indonesia, India, Europe and the Middle East. We believe such delineation of our sales network benefits us with flexibility in providing sales and technical supports to our customers and establish local presence in important markets geographically. Our sales representatives are responsible for (i) sales and promotion of our products and services, (ii) preparing marketing materials, (iii) following up on referrals, (iv) managing customer relationship, (v) handling customers' enquiries and orders, (vi) formulating sales plans and (vii) recovering outstanding payment from customers.

Marketing and Business Development

We mainly market our products through distributing marketing materials (including product catalogues and contract reference lists) during client meetings and visits. As cleanroom facilities owners and main contractors generally prefer to deal with suppliers that they had prior business experience with, and invite their shortlisted pre-approved suppliers to participate in tenders for new cleanroom contract, we take initiative to apply for and maintain our qualified supplier status with major cleanroom facility owners and contractors.

We obtain new cleanroom tender information, price quotations and other business opportunities primarily through the following sources: (i) announcement of open tenders or new factory construction contracts published on media, (ii) market information collected from cleanroom design and engineering companies, and (iii) most frequently, referrals by our regular customers, who have satisfactory contract experience with us and give word-of-mouth recognition of our brand reputation, quality consistency and service standard and therefore invite us to tender or quote for their new projects. In addition, we also leverage various customer facing occasions, including handling requests for quotation from potential customers, customer visits and providing cleanroom preventive maintenance services, to explore new business opportunities.

New business opportunities will be referred to and followed up by our sales offices. After identifying potential contracts, we will appoint a specific sales representative according to the characteristics of the contract to contact relevant parties, such as the facility owner and/or their main contractors, consultants, so as to promote our products and services, who will also be the point of contact between us and our customers and follow up with the contracts throughout the rest of the sales and construction process until completion.

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Sales Process

Typically, when we receive an invitation to tender or request for quotations or consider to bid in an open tender, our sales representatives will first evaluate the customer's reputation in the market, financial stability and previous business relationships. We also review the information provided to us with a focus on the contract or product requirements and assess our technical capability and production capacity accordingly. Our executive Directors and our senior management will decide whether to participate in the tender. Our price quotations and tender documents are normally prepared by our sales representatives and engineers together and approved by our general managers. Where the contract value exceeds RMB100,000 or its equivalent in the respective currencies, approval from our executive Directors is required. Factors including the client/contract portfolio, scope of work, production capabilities, financial ability, pricing, payment terms and other terms and conditions will be considered.

Due to the nature of our products and the project-based nature of cleanroom installation, we do not generally enter into long-term sales agreement with customers for our products. Our sales terms are governed by written purchase orders or tender agreement. The sales terms generally stipulate price, quantity of each product, agreed engineering drawings and specifications, delivery and payment schedule, payment terms and, where applicable, scope of installation services. See the paragraph "Our Customers" below in this section for details.

For customers using our cleanroom preventive maintenance service, we generally enter into service contracts with them which are renewable annually.

Pricing Policy

We adopt a cost-plus pricing policy in general with mark-up, which is determined on a contract by contract basis and after taking into consideration, among others, the following factors: (i) agreed specifications of the contract (including the scope and complexity of the contract); (ii) availability of our manpower, machinery and resources; (iii) costs and expenses for R&D (where applicable), production, raw materials, subcontracting, shipping and manpower; (iv) our relationship with the customer; (v) historical prices for the customer; and (vi) market demand and the prevailing market prices.

Our pricing strategy is reviewed from time to time by our management to ensure we offer competitive prices with reasonable profit margins. We also offer promotions and discounts in the cases of repeated order, blanket order or big volume purchases, based on our relationship with the customers and the market competition of their respective geographical regions.

Payment Terms and Credit Control

For sales of goods without installation services, we generally require (i) 0% to 30% advance payment upon issuance of purchase order and (ii) 70% to 100% balance payment against the invoices that we issue upon delivery to site according to the agreed schedule. For cleanroom projects, we may require (i) advance payment up to 30% upon confirmation of contract, (ii) progress payment usually in the range of 40% to 80% based on the corresponding progress of our installation work; (iii) final payment (if any) up to 30%, generally billable upon final acceptance by our customer, who will usually issue such final acceptance after they receive final acceptance from the facility owner of the project; and (iv) retention money, usually in the range of 3% to 10%, billable upon expiry of retention period.

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In addition, where required by customers, our sales contracts may provide that retention money of 3% to 10% of the contract value shall be held by our customers or pledged with a bank guarantee of equivalent sum or paid to us in a security bond of equivalent sum, which can be released upon the expiry of defect liability period or warranty period, which is usually 12 to 24 months. Our customers generally settle the payment through bank transfer and letter of credit.

We do not grant credit period to new customers and will only grant credit period to customers that we consider to be creditworthy. For customers without credit period, we require full payment of contract price with retention money (if applicable) before or upon delivery of our products. For credit worthy repeating customers, we generally provide credit periods ranging from 30 days to 90 days from each invoice date. Our senior management team evaluates the creditworthiness of our customers before granting credit period to them and reviews the credit terms for each existing and prospective customer, which are determined with reference to, among other things, (i) the length of the business relationship with us, (ii) the payment history of the customer (including transaction amount with us, profit contribution to us and credit track record), as well as (iii) the financial strength and creditability of the customer. See “Our customers” for further details of our payment and credit terms.

Logistics and Delivery

During the Track Record Period, delivery terms in our sales contracts are generally DDP (Delivered Duty Paid) for contracts in Malaysia and CIF (Cost, Insurance and Freight) for export, among other options depending on our negotiation with customers. For our sales contracts in the PRC, delivery are VAT inclusive for local contracts, and CIF for export. Where we are responsible for delivery, we generally engage third party logistics partners, who provide us with standard pricing during agreed periods, for product delivery at our expenses. Where we purchase goods and components from suppliers to fulfill part of our order, we may arrange direct shipping from that supplier to our customers for convenience and time saving. Notwithstanding shipments were made directly to customers, the fund flow and accounting treatments of such transactions are the same as our other transactions without such direct shipping arrangements. Our shipping terms with our customers are determined contract-by-contract based on our negotiation.

Our Directors confirmed that we did not experience any material delay in delivery to our customers during the Track Record Period.

After-sales Service and Complaint Handling

For sales of products without installation services, after delivery of products, we generally have a joint visual inspection with our customer to check the units against the packing list regarding the quantity and quality of the products and note if there is any discrepancy. Any units that fail the inspection will be re-worked or modified upon the customers’ approval. For cleanroom equipment products, we will conduct random inspection before delivery. After the equipment arrive at the site of the main contractor, they shall be further inspected and certified by either a third party or the main contractor. For equipment that are customised, they will be inspected individually before delivery. Where the tender document/purchase order specifies production acceptance process, we will carry it out accordingly. For contracts with installation services, we send our staff to the site to jointly monitor the progress and quality of the installation

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work carried out by third party subcontractors, together with the main contractor. Apart from installation services, we also provide customer support in respect of the proper set up of our cleanroom wall and ceiling systems and cleanroom equipment. When necessary, we send our engineers to provide technical support and guidance for setting up and use of our products. The after-sales customer services requests are handled by our sales representative and engineers.

We believe customer services play a vital role in building our brand reputation and continuously improve the quality of our products and services. Accordingly, our Directors and senior management place much emphasis on customer feedback, complaints and service requests and have established a complete set of procedures for handling the above, with reference to the relevant ISO policies. The procedures set forth steps to implement corrective actions with responsible persons for each step, from identifying and reviewing non-conformities including customer complaints to following up and reviewing the effectiveness of actions taken, as well as the process to determine preventive actions. We have a dedicated committee to identify and discuss the cause of the reported problems and will perform appropriate rectification actions based on such findings.

Product Return and Warranty

In general, upon delivery of our products, our customers may, within a defect liability period of 12 to 24 months from the date of final acceptance, inform us of any issue relating to the quality of our products delivered. If any defect or malfunction is discovered, we may first send our engineers to site to investigate the problem and then arrange for replacement of product upon justification. Typically, we offer one to two years warranty against manufacturing defect arising from normal use or as stated in contracts for our products sold.

During the Track Record Period, and up to the Latest Practicable Date, we had not received any material product return request or any material complaints and claims from our customers in relation to the quality of our products and there had not been any product recalls or material accidents, litigation or investigation related to our products.

Seasonality and Sales Fluctuation

Based on the experience of our executive Directors, we are not subject to any material seasonal fluctuations as cleanroom contracts generally take place throughout the year and our business is project-based in nature. However, as we generated approximately 39.4% to 69.2% of our revenue from cleanroom projects during the Track Record Period, which we generally complete within six to nine months and recognise revenue over time, based on the percentage of completion, our sales and revenue may fluctuate subject to when we sign the contracts and commence our work, and in turn the timing of revenue recognition based on percentage of completion.

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OUR CUSTOMERS

We provided our products and services to more than 400 customers during the Track Record Period, which were mostly main contractors and cleanroom design and engineering companies. While the parties we contract with were generally contractors engaged by the facility owners, based on our Directors' understanding and experience and the F&S Report, facility owners usually have much influence on the selection of various contractors in the tender or quotation review process.

During the Track Record Period, we did not enter into any long-term contracts with any of our customers. In general, for project-based sales, we sign an agreement upon tender awarded by our customers on a project by project basis; while for non-project based sales, the sales are confirmed by purchase orders. Our Directors consider that such arrangement is in line with the common practice of the cleanroom industry in our major markets.

During the Track Record Period, our products are mostly applied in cleanrooms for the semiconductor industry. We have developed stable and long business relationships with many customers, and have been collaborating with some of them for over 25 years. With our top five customers during the Track Record Period, we have over 11 years of business relationship on average.

Set out below is the sectorial breakdown of revenue contribution based on the application of our products and services:

Revenue	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Semiconductor ⁽¹⁾	120,975	87.5	162,755	91.7	197,398	95.8	43,662	90.5	17,971	67.5
Pharmaceutical ⁽²⁾	14,508	10.5	5,236	2.9	5,230	2.5	1,478	3.1	618	2.3
Others ⁽³⁾	2,786	2.0	9,557	5.4	3,541	1.7	3,099	6.4	8,047	30.2
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Notes:

1. Our customers requiring semiconductor standard cleanroom products mainly include manufacturers of semiconductors and electronic products such as LED/LCD display.
2. Our customers requiring pharmaceutical standard cleanroom products mainly include manufacturers of pharmaceutical, biotechnology and nutritional products and medical institutions.
3. "Others" includes data centres, academic institutions and automotive industries.

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Set forth below is a geographical breakdown of our revenue, based on the locations at which the services were provided or the goods delivered for the periods indicated.

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000
	(unaudited)									
The PRC	56,101	40.6	95,980	54.1	110,947	53.8	34,337	71.2	10,412	39.1
Malaysia	35,400	25.6	39,138	22.0	51,504	25.0	1,692	3.5	3,063	11.5
Philippines	20,089	14.5	21,191	11.9	25,703	12.5	7,671	15.9	1,406	5.3
Singapore	17,166	12.4	14,471	8.2	11,008	5.3	2,863	5.9	7,768	29.2
Others	9,513	6.9	6,768	3.8	7,007	3.4	1,676	3.5	3,987	14.9
	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note: "Others" includes various countries and locations in Hong Kong, Thailand, Vietnam, Bangladesh, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

Top Five Customers

For FY2017, FY2018, FY2019 and 3M2020, our five largest customers accounted for 61.8%, 71.3%, 65.3% and 78.2% of our total revenue, respectively. The following table sets forth the revenue from our five largest customers during the Track Record Period. The credit terms and/or payment methods are tailored for each contract, and may vary depending on our business relationship, the customer's business sector, as well as the type, specifications and the sales amount.

For 3M2020

Customer	Background and principal business nature	Principal products purchased	Years of relationship	Transaction amount (RMB million)	% of our revenue	Credit terms and payment method
Customer A	A leading Germany-established group, principally engaged in design, engineering and construction of high-tech facilities, plants and factories, with business in Germany, Singapore, the U.S. and China, with sales of over EUR3 billion in 2018. It is ultimately controlled by an Austrian group with a 25-year track record in utility scale energy and high tech engineering projects globally.	Cleanroom wall and ceiling systems/installation	20	6.5	24.3	30-60 days, telegraphic transfer ("TT")

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Customer	Background and principal business nature	Principal products purchased	Years of relationship	Transaction amount (RMB million)	% of our revenue	Credit terms and payment method
Customer J	A Singapore-incorporated engineering company principally engaged in design, project management, supply, installation and maintenance of environmental control system including air conditioning, mechanical ventilation, heating and refrigeration system and cleanroom solutions for different industries ranging from pharmaceutical to semiconductor and microelectronics.	Cleanroom wall and ceiling systems	12	6.5	24.3	30 days, TT
Customer C	A PRC-incorporated engineering company principally engaged in the design, consultation and construction of manufacturing facilities for industries including integrated circuits, LED/LCD displays, biotechnology and monocrystalline silicon material. Its parent company is a PRC-incorporated chemical fibre manufacturing company whose shares are listed on the Shanghai Stock Exchange with a market capitalisation of over RMB21 billion as at the Latest Practicable Date	Cleanroom wall and ceiling systems/installation	1	4.1	15.5	45 days, promissory notes
Customer K	A United Kingdom-incorporated engineering company, principally engaged in the supply of design, manufacture and construction of innovative biotech and pharmaceutical controlled environment solutions with business in the Europe, the Middle East and Africa region.	Cleanroom wall and ceiling systems	1	3.2	12.2	30 days, TT
Customer B	A PRC state-owned technology company, principally engaged in provision of professional contracting and general contracting services such as clean environmental protection, intelligent facility system resolve scheme, engineering consulting project management, equipment procurement, construction, installation and operation and maintenance of facility. It is one of the top 100 enterprises in Jiangsu Province with 30 branches and 4 subsidiaries. Its parent company is the PRC's largest state-owned electronic information enterprise group, directly managed by the PRC central government.	Cleanroom wall and ceiling systems/Installation	15	0.5	1.9	30-60 days, TT

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For FY2019

Customer	Background and principal business nature	Principal products purchased	Years of relationship	Transaction amount (RMB million)	% of our revenue	Credit terms and payment method
Customer A	Please see above.	Cleanroom wall and ceiling systems/ Installation	20	75.9	36.8	30-60 days, TT
Customer B	Please see above.	Cleanroom wall and ceiling systems/ Installation	15	27.6	13.3	30-60 days, TT
Customer C	Please see above.	Cleanroom wall and ceiling systems/ Installation	1	12.7	6.2	45 days, promissory notes
Customer D	A technology service provider group principally engaged in the provision of marketing and technology integration support services across Asia and the U.S., whose shares are listed on the Taiwan Stock Exchange with a market capitalisation of over TWD19 billion as at the Latest Practicable Date. Its ultimate controlling shareholder is a technology company engaged in electronic manufacturing business.	Cleanroom wall systems, door/ window systems and ceiling systems	14	9.3	4.5	30-60 days, TT
Customer E	An engineering group principally engaged in air conditioning and control technologies and paint finishing system business across Europe, Asia, and the Americas, whose shares are listed on the Tokyo Stock Exchange with a market capitalisation of over JPY100 billion as at the Latest Practicable Date.	Cleanroom wall and ceiling systems, FFU, cleanroom equipment and flooring system	21	9.2	4.5	30 days, TT

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For FY2018

Customer	Background and principal business nature	Principal products purchased	Years of relationship	Transaction amount (RMB million)	% of our revenue	Credit terms and payment method
Customer A	Please see above.	Cleanroom wall and ceiling systems/Installation	20	89.7	50.5%	30-60 days, TT
Customer F	A Malaysia-incorporated private company principally engaged in cleanroom design and construction and air-conditioning engineering business in Malaysia and overseas.	Cleanroom wall and ceiling systems, air shower, pass box and FFU	14	13.3	7.5%	30-60 days, TT
Customer E	Please see above.	Cleanroom wall and ceiling systems, FFU, cleanroom equipment and flooring system	21	8.9	5.0%	30 days, TT
Sum Technic	A Malaysia-incorporated company principally engaged in mechanical and electrical engineering work, cleanroom design and built, utilities piping and cleanroom architecture works. It is a connected person of our Company.	Cleanroom wall and ceiling, cleanroom equipment, FFU and flooring	2	7.8	4.4%	30 days, cheque
Customer G	A PRC-incorporated joint-stock company principally engaged in the provision of design, construction and specialised engineering technical services in the PRC and across Asia, whose shares are listed on the Shanghai Stock Exchange with a market capitalisation of over RMB3 billion as at the Latest Practicable Date. Its controlling shareholder is a Taiwan-incorporated engineering company.	Cleanroom wall and ceiling systems / Installation	13	6.9	3.9%	30 days, TT

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For FY2017

Customer	Background and principal business nature	Principal products purchased	Years of relationship	Transaction amount (RMB million)	% of our revenue	Credit terms and payment method
Customer A	Please see above.	Cleanroom wall and ceiling systems / Installation	20	31.1	22.5%	30-60 days, TT
Customer D	Please see above.	Cleanroom wall systems, door / window systems and ceiling systems	14	16.2	11.7%	30-60 days, TT
Customer H	A Malaysia-incorporated engineering group principally engaged in supply, installation and maintenance for cleanroom and air-conditioning systems in Malaysia. One of its parent company is known to be Japan's largest company specialising in heating, ventilation and air conditioning, whose shares are listed on the Tokyo Stock Exchange with a market capitalisation of over JPY117 billion as at the Latest Practicable Date.	Cleanroom wall and ceiling systems, cleanroom equipment, FFU	18	13.8	10%	30-60 days, TT
Customer E	Please see above.	Cleanroom wall and ceiling systems, FFU, cleanroom equipment and flooring system	21	12.8	9.3%	30 days, TT
Customer I	A Singapore-incorporated company principally engaged in building engineering design, consultancy services and contractors of building construction with business across Asia.	Cleanroom wall and ceiling systems	10	11.5	8.3%	30 days, cheque

During the Track Record Period, our top five customers and transaction amount with them changed from year and year, because a significant portion of our revenue was generated on a contract-by-contract basis and the contract amounts of our contracts varied. Our relatively high revenue contribution from Customer A during FY2018 was due to its leading market position and our business relationship of over 15 years. As our business is project-based, the fluctuation of our sales with Customer A corresponded with the size of contracts obtained by Customer A, of which we were their named / contracted supplier for cleanroom products during a particular year. In 2018, Customer A was able to win more contracts with higher contract values in the PRC, for which we were their contracted supplier for cleanroom wall and ceiling systems, which therefore resulted in a relatively high revenue contribution during the same period. Revenue contribution from Customer A decreased from RMB89.7 million, representing 50.5% of our revenue for FY2018, to RMB75.9 million for FY2019, representing 36.8% of our revenue for FY2019.

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Sum Technic is owned as to approximately 51.0% by Mr. Ng who is a Controlling Shareholder and an executive Director. As such, upon Listing, Sum Technic will be a connected person of our Company under the Listing Rules. See the section “Relationship with Controlling Shareholders” for details. Sum Technic is engaged as the main contractor in construction and engineering business and also takes up cleanroom projects. As it does not engage in the manufacturing and trading of cleanroom wall and ceiling systems and equipment, it engaged us as its supplier to provide cleanroom wall and ceiling systems and cleanroom equipment. Our Directors confirm that the transactions with Sum Technic during the Track Record Period were conducted in the ordinary course of business and the terms were fair and reasonable.

In addition to Sum Technic, Mr. Ng also owns 45.3% of Sum System, which was engaged by our Group for an one-off engagement to design, build and install the solar panel system at our Malaysia Factory during FY2017. As Sum Technic and Sum System are both controlled by Mr. Ng, Sum Group was a top five customer during the Track Record Period and was also one of our suppliers. For FY2017, FY2018, FY2019 and 3M2020, the total amount of purchases of property, plant and equipment from Sum System were approximately RMB0.7 million, nil, nil and nil, respectively. Save as disclosed, none of our major customers were also our suppliers or vice versa during the Track Record Period.

Save for Sum Group, all of our five largest customers during the Track Record Period are Independent Third Parties. To the best of our Directors’ knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest customers during the Track Record Period.

Our Largest Customer

For FY2017, FY2018, FY2019 and 3M2020, our revenue derived from Customer A amounted to approximately RMB31.1 million, RMB89.7 million, RMB75.9 million and RMB6.5 million, respectively, representing approximately 22.5%, 50.5%, 36.8% and 24.3% of our total revenue respectively. Our Directors are of the view, which is supported by the F&S Report, that customer concentration in the cleanroom manufacturing industry in the PRC and Southeast Asia is not uncommon, and that our business model is sustainable despite the customer concentration, due to the following factors:

- (i) high-end and sophisticated cleanroom manufacturing projects are generally commissioned by end customers/facility owners who are global leading brand owners or major institutions, who will usually engage reputable main contractors with large market share, such as Customer A, to undertake their cleanroom projects. According to the F&S Report, Customer A is one of the leading cleanroom solution providers and a pioneer in designing, engineering and constructing high-tech facilities and factories. It is the top supplier in the Malaysia cleanroom facility market with a market share of approximately 9.0%. Therefore, if we undertake high-end and sophisticated cleanroom manufacturing projects in Asia of these end customers, Customer A may easily become our direct customer;

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- (ii) as confirmed by our Directors, we are generally a pre-approved supplier of the facility owners. As such, main contractors, such as Customer A, do not exercise full discretion over the selection of cleanroom product suppliers but could only transact with the pre-approved suppliers to undertake projects for such facility owners, and we will have a high chance to be shortlisted as such by many globally renowned facility owners, and thus be engaged as the supplier to Customer A if they were engaged to undertake such projects; and
- (iii) as confirmed by our Directors, as we are generally a pre-approved supplier of the facility owners, we may be engaged by several potential major contractors to supply for the same project. According to the F&S Report, it is common for reputable and qualified cleanroom products suppliers to be engaged by several main contractors to participate in tender/quotation submission for the same cleanroom project. As confirmed by our Directors, there were instances where we were the preferred supplier of both Customer A and another main contractor for the same project. Even though Customer A lost the project, we were eventually engaged by the other main contractor for the same project. This illustrates that we do not unduly rely on Customer A but instead have a wide customer base, and have a sustainable business model.

Based on the above factors and our competitive strengths as set out in “Our Strengths” in this section, our Directors are of the view that we are capable of carrying on our business independently of, and does not and will not unduly rely on, Customer A and that our business is sustainable.

PRODUCTION

We manufacture cleanroom wall and ceiling systems and cleanroom equipment according to the specifications, application uses and specific needs and requirements of the end users, at our PRC Factory and Malaysia Factory.

Production Facility

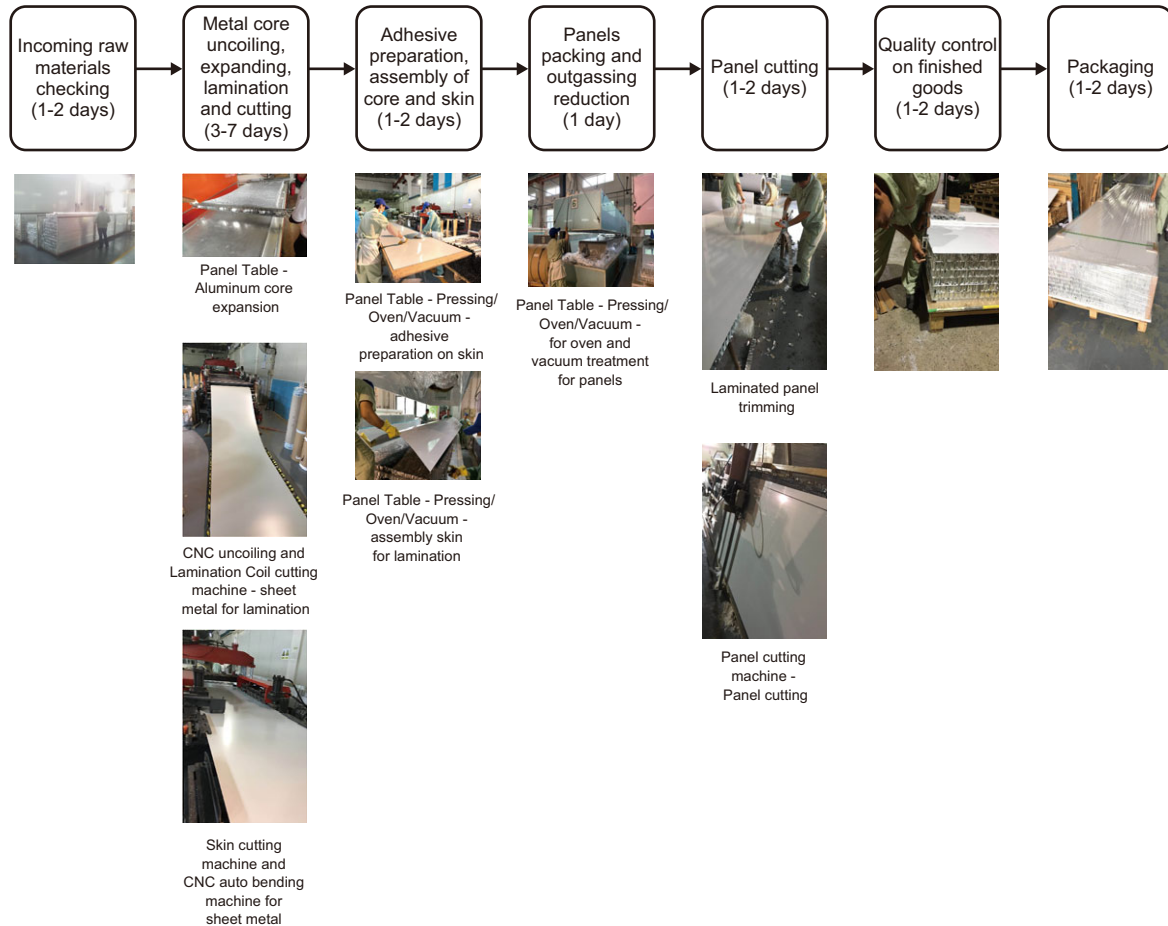
We produced our cleanroom wall and ceiling systems in our PRC Factory, while we produced our cleanroom wall and ceiling systems as well as our cleanroom equipment in our self-owned Malaysia Factory. Our PRC Factory has a GFA of approximately 2,371 sq.m., while our Malaysia Factory has a GFA of approximately 4,515 sq.m. Our warehouse for storage of raw materials, work-in-progress and finished goods are also located at our factories and the Additional Warehouse.

Production Processes

With about 30 years of operating history, we believe we have become efficient and specialised in the production processes for cleanroom wall and ceiling systems and cleanroom equipment, which have different production processes.

Cleanroom wall and ceiling systems

The following flowchart illustrates the typical production flow for cleanroom wall panels and ceilings, the major machineries used and the time generally required for the process:



Metal skin and adhesive preparation

Once we receive the incoming metal core, our quality control engineers will inspect the smoothness of the surface and measure its dimensions. The core will then be expanded to the required length and dimension.

We prepare the metal skin by laminating and cutting the metal coil. Our quality control engineers will inspect the metal coil when they arrive at our premises before the cutting and lamination processes. We may also purchase processed metal skin as raw materials for manufacturing of our cleanroom wall and ceiling systems. We inspect the processed metal skin before they are used in our manufacturing process.

We prepare the adhesive, which is used to assemble the core and the metal skin to form a panel, by weighing the materials, such as epoxy resin and hardener, to the required ratio. Our adhesive operator then mixes the materials. The adhesive is then transferred for production.

Quality control

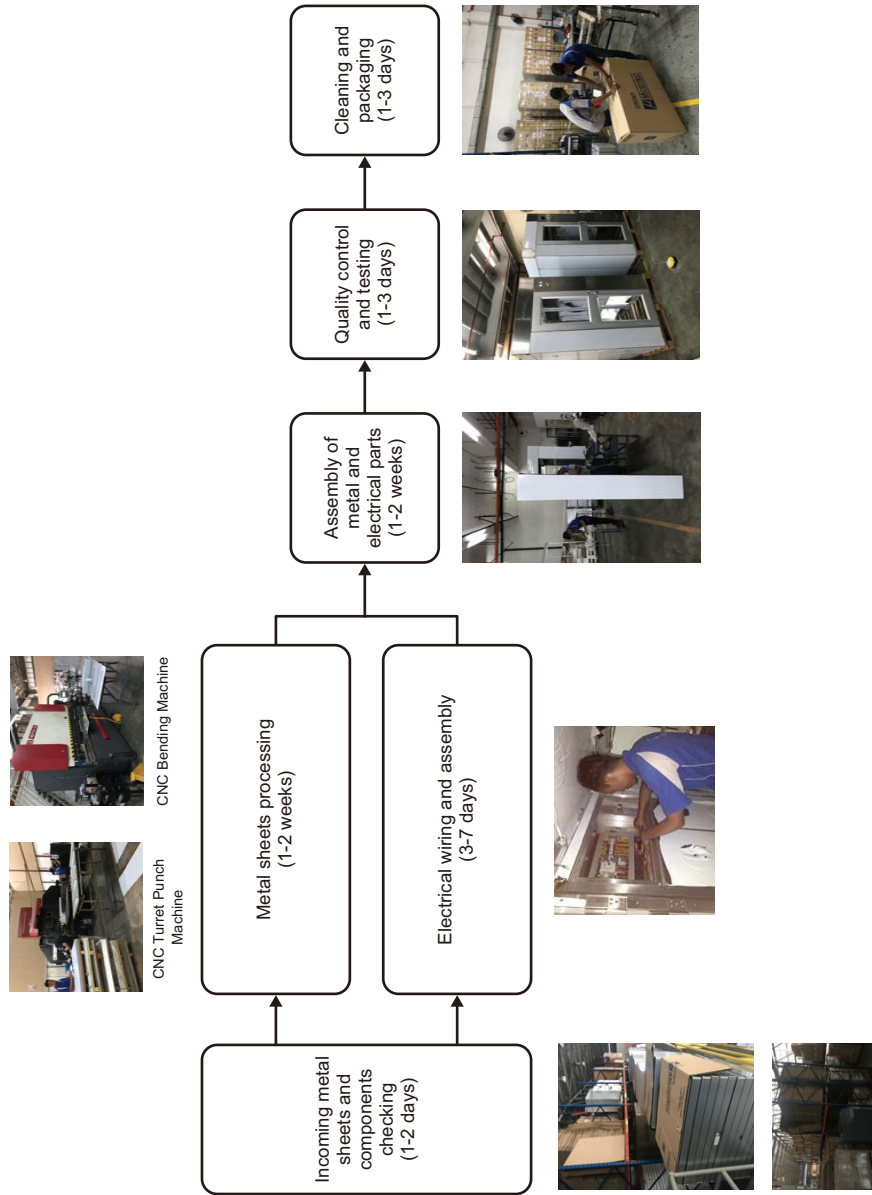
We conduct quality control both pre-production and also on the finished goods. Our quality control personnel inspect the incoming metal sheets, and only upon satisfaction of their requirements will the materials be forwarded for manufacturing and processing. Upon completion of the production process, the finished goods shall be further inspected by our quality control personnel. Unsatisfactory finished goods shall be either returned for repair or scrapped if they cannot be repaired. Finished goods that have passed our quality inspection shall be packed and arranged for onward delivery to our customer.

Panel packaging and processing

We forward the expanded core, skin and adhesive for manufacturing. The metal skin is prepared by and placed on a bonding table. Adhesive is spread and applied uniformly onto the metal skin. The core is placed on top of the skin, which is covered by another layer of metal skin on which adhesive has also been applied. The packing process is repeated, and the panel will then be covered with plastic, breather and heavy duty plastic. Lastly, it will be sealed with sealant rubber, and go through outgassing reduction process for at least four hours.

Cleanroom equipment

The following flowchart illustrates the typical production flow of cleanroom equipment, the major machineries used and the general production time:



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Metal sheet preparation and electrical wiring and assembly

Upon receiving the incoming metal sheets, our quality control personnel will inspect the smoothness of the surface and measure its dimensions. Upon passing the incoming inspection, the metal sheets will then be passed to the machineries for fabrication and bending to form the metal structure. The metal sheets will also be cut to form the necessary metal parts. The metal structure and the metal parts will then be cased and assembled, and further inspected by our quality control personnel.

We conduct incoming inspection on the motors and blowers. The inspected components will then undergo the process of electric wiring where the panels, switches, boards and light fittings will be cabled and assembled. Upon completion of the wiring process, the parts will be further inspected.

Final assembly

The sheet metal and equipment parts that have passed our inspection test will then be assembled according to the specifications and requirements of our customers. We conduct an interim quality control inspection during the assembly process for quality assurance. We further carry out a final quality control inspection before the cleanroom parts is cleaned and packed. The equipment will be forwarded to our sampling quality control personnel for sample testing before the finished equipment leave our manufacturing facility.

Major machineries and equipment

We own all of the machineries at the PRC Factory and the Malaysia Factory. We set forth below details of our main machineries and equipment, their principal usage and estimated remaining useful life at our PRC Factory and Malaysia Factory:

Machineries and equipment	Number	Principal usage and function	Estimated remaining useful life (years)^(Note)
(1) Machineries in PRC Factory for production of cleanroom walls and ceilings			
Metal coiling, expanding, lamination and cutting:			
Framing forming machine	1	Forming of metal frames	2
CNC and non-CNC auto bending machine	1	Bending of metal sheets	2
CNC uncoiling machine	1	Levelling of metal sheets	2
Aluminium extrusion cutter	2	Cutting of aluminium profile	2

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Machineries and equipment	Number	Principal usage and function	Estimated remaining useful life (years) ^(Note)
Adhesive preparation, assembly of core and metal skin:			
Panel table – pressing/oven/vacuum	19	Lamination of panels	7
Panel fabricator	9	Fabrication of panels	7
Panels packing and outgassing reduction:			
Panel table – pressing/oven/vacuum	19	Lamination of panels	7
Panel fabricator	9	Fabrication of panels	7
Panel cutting:			
Panel cutting machine	2	Cutting of laminated panels	1
Drilling, milling, threading and cutting machine	9	Drilling, milling, threading and cutting of metal parts	1
Quality control on finished goods, production support:			
Air compressor	3	Powering of machineries and equipment	7
Weighing table	1	Material weighing	7
Activated carbon absorber tower	1	Absorption of exhaust gas during cutting	7
Hydraulic jack and forklift	3	Handling of metal	2
(2) Machineries in Malaysia Factory			
(a) For production of cleanroom wall and ceiling systems			
Metal coiling, expanding, lamination and cutting:			
Lamination coil cutting machine	2	Un-coil and cutting of metal sheets	2
Framing forming machine	1	Forming of metal frames	2
CNC and non-CNC auto bending machine	1	Bending of metal sheets	2
Shearing machine	1	Shearing of metal sheets	2
Aluminium extrusion cutter	2	Cutting of aluminium profile	2

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Machineries and equipment	Number	Principal usage and function	Estimated remaining useful life (years) ^(Note)
Adhesive preparation, assembly of core and skin; panel packing and outgassing reduction:			
Panel Table – pressing/oven/vacuum	8	Lamination of panels	7
Panel cutting:			
Panel cutting machine	1	Cutting of laminated panels	1
Copy router machine	1	Cutting appropriate slots on aluminium and plastic profiles	2
Drilling, milling, threading and cutting machine	3	Drilling, milling, threading and cutting of metal parts	1
Quality control on finished goods, production support:			
Air compressor	1	Powering of machineries and equipment	7
Weighing table	1	Material weighing	7
Hydraulic jack and forklift	2	Handling of metal	7
(b) For equipment			
Sheet metal processing:			
CNC & non-CNC auto bending machine	2	Bending of metal sheets	2
CNC turret punch machine	1	Punching and fabrication of metal sheets	1
Drilling, milling, threading and cutting machine	7	Drilling, milling, threading and cutting of metal parts	1
Plasma, welding, grinding and polish machine	27	Cutting, welding, grinding and polishing of metal sheet	1
Electrical wiring and assembly:			
Drilling, milling, threading and cutting machine	7	Drilling, milling, threading and cutting of metal parts	1
Assembly of metal and electrical parts:			
Drilling, milling, threading and cutting machine	7	Drilling, milling, threading and cutting of metal parts	1
Plasma, welding, grinding and polish machine	27	Cutting, welding, grinding and polishing of metal sheet	1

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Machineries and equipment	Number	Principal usage and function	Estimated remaining useful life (years) ^(Note)
Quality control and testing:			
Drilling, milling, threading and cutting machine	7	Drilling, milling, threading and cutting of metal parts	1
Production support:			
Air compressor	3	Powering of machineries and equipment	7
Hydraulic jack and forklift	1	Handling of metal	2

Note: The estimated remaining useful life as set forth in the table above is based on the estimated remaining duration of each of the machinery before it has to be replaced.

Production Capacity and Utilisation

We operate four production lines in our PRC Factory and two production lines in our Malaysia Factory. See the paragraph “Production Facility” above for details.

The following table sets out the theoretical maximum production capacities, actual production volume and utilisation rate of our principal production facilities for our major product lines for the periods indicated:

	FY2017	FY2018	FY2019	3M2020
PRC Factory:				
Cleanroom walls and ceilings				
– Theoretical capacity (<i>sq.m.</i>) ⁽¹⁾	82,800	90,000	90,000	17,377 ⁽²⁾
– Actual production (<i>sq.m.</i>)	57,093.7	87,980.1	89,870.2	12,186.3
– Utilisation rate ⁽³⁾	69.0%	97.8%	99.9%	70.1%
Malaysia Factory:				
Cleanroom walls and ceilings				
– Theoretical capacity (<i>sq.m.</i>) ⁽⁴⁾	48,154	48,154	48,154	10,215 ⁽⁵⁾
– Actual production (<i>sq.m.</i>)	47,391.7	48,037.7	48,082	6,158
– Utilisation rate ⁽³⁾	98.4%	99.8% ⁽⁷⁾	99.9%	60.3%
Cleanroom Equipment				
– Theoretical capacity (<i>pieces</i>) ⁽⁶⁾	7,260	7,260	7,260	1,540 ⁽⁵⁾
– Actual production (<i>pieces</i>)	6,360	6,798	6,690	686
– Utilisation rate ⁽³⁾	87.6%	93.6%	92.1%	44.6%

BUSINESS

Notes:

- (1) Production capacity for our cleanroom wall and ceiling products in our PRC Factory for any period refers to the theoretical maximum sq.m. of panels it can produce, assuming 8 working hours per day and 250 working days per year. The estimation is based on the oven tables or pressing tables in operation to prepare the panels. Due to the addition of oven tables in July 2017, the daily production of panels was increased to an average of 331.2 sq.m. in FY2017 and 360 sq.m. in FY2018, FY2019 and 3M2020.
- (2) The number of working days during 3M2020 is 53 days due to the Lunar New Year Holiday and the impact of COVID-19. For details of the impact of COVID-19, please refer to section headed “Business — Recent Outbreak of COVID-19 — Our ongoing projects and business operations — (a) Our operations — (1) In the PRC” in this prospectus.
- (3) Utilisation rate equals to actual production volume of products divided by theoretical maximum production capacity.
- (4) Production capacity for our cleanroom wall and ceiling products for a period refers to the theoretical maximum sq.m. of panels our production facilities can produce, estimated based on five units of oven tables in operation to prepare an average of 8 pieces of metal sheets of 4.56 sq.m. per day, assuming 8 working hours a day and 264 working days per year.
- (5) The number of working days during 3M2020 is 56 days due to the impact of COVID-19. For details of the impact of COVID-19, please refer to section headed “Business — Recent Outbreak of COVID-19 — Our ongoing projects and business operations — (a) Our operations — (2) In Malaysia” in this prospectus.
- (6) Production capacity for our cleanroom equipment products in our Malaysia Factory during a period refers to the theoretical maximum number of equipment our production facilities can produce, estimated based on the CNC turret punch machine in operation to punch an average of 5 pieces per hour, assuming 8 working hours per day and 264 working days per year.
- (7) The utilisation rate for FY2018 is higher due to the increase in production volume of approximately 1.4%. Nonetheless, the revenue from wall and ceiling systems generated in Southeast Asia (i.e. excluding the revenue generated from the PRC, Saudi Arabia, Vietnam and Hong Kong) decreased by approximately 9.2%, which was attributable to the relatively lower selling price in FY2018.

The utilisation rate of our PRC Factory increased substantially from 69.0% in FY2017 to 97.8% in FY2018 as demand for our cleanroom wall and ceiling systems increased substantially, driven by the increase in investment in the semiconductor industry. The utilisation rate for FY2019 further increased to 99.9%. Our PRC Factory operated close to full capacity in both FY2018 and FY2019. The utilisation rate of our PRC Factory decreased substantially from 99.9% for FY2019 to 70.1% for 3M2020.

The utilisation rate for production of cleanroom walls and ceilings in our Malaysia Factory increased from 98.4% in FY2017 to close to full capacity and was at 99.8% in FY2018 and 99.9% in FY2019, which is in line with the increase in our revenue for the same period. The utilisation rate for production of cleanroom walls and ceilings in our Malaysia Factory dropped to 60.3% for 3M2020.

The utilisation rate for the production of cleanroom equipment in our Malaysia Factory was 87.6% in FY2017 due to the decrease of order for FFUs. The utilisation rate increased to 93.6% in FY2018 as a result of two major contracts for cleanroom equipment. The utilisation in FY2019 remained close to full capacity at 92.1%. The utilisation rate for production of cleanroom equipment in our Malaysia Factory dropped to 44.6% for 3M2020.

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Our utilisation rates in our PRC Factory and Malaysia Factory dropped in 3M2020 due to suspension in our operations and on-going projects as a result of the lockdown measures and transportation restrictions as a result of COVID-19. However, none of our projects and contracts have been terminated or aborted, nor have any of our customers expressed an intention to terminate or abort our projects and contracts, as a result of the outbreak of COVID-19. We are resuming our business operations to the extent permissible under the applicable government regulations, and have been in the progress of completing our ongoing projects and contracts. We expect the utilisation rate will gradually return to normal level upon full resumption of our operations and projects.

Equipment maintenance

We endeavour to repair and maintain our machinery and equipment on a regular basis. Our production workers are responsible for carrying out inspections and routine cleaning of our production equipment, as well as minor maintenance, whereas we outsource major maintenance to our equipment supplier on it is more cost effective and reliable. According to our Directors' experience, the useful lives of our principal machinery and equipment are approximately 5 to 20 years. Our Directors believe that, with satisfactory maintenance, some of our equipment can be used for up to 20 years. Save for the replacement of worn parts due to wear and tear from time to time, our Directors confirm we currently do not have any replacement plan for our equipment and machineries.

Our Directors confirm that we did not experience any material or prolonged interruptions to our production process due to equipment or machinery failure during the Track Record Period.

QUALITY CONTROL AND ASSURANCE

We believe that an effective quality management system is critical to ensure the quality of our products and maintaining our reputation and success. We have obtained the certificates necessary to satisfy the strict requirements of our customers. We have adopted comprehensive quality control and assurance systems in accordance with these standards covering our production and operations. See "Quality Management System" for details on our ISO quality management system.

We have a team of experienced quality control managers who are familiar with the relevant legal and regulatory requirements applicable to our products. Our personnel also closely monitor our production process and conduct inspection and checks to ensure our products meet our quality standards. See the paragraph headed "Quality Control and Assurance Procedures" in this section for further details.

With our well-established quality management system in place, we have not experienced any material safety issues with our products reported by our customers or relevant government authorities or any material product liability or legal claims due to the quality of our products and have not been subject to any material adverse findings in any inspection or audit by any government authority or suppliers during the Track Record Period.

Quality Control and Assurance Standards

We place a strong emphasis on adopting quality control and assurance systems that meet the international and industry standards. We are typically required to submit laboratory testing reports for our new products in applying to be on the pre-approved supplier list of our customers, such as fire propagation test and flame test. Where required, we will also ensure that our products comply with local laws and standards applicable to cleanroom construction materials and equipment.

Our products are, in addition to being certified to be in compliance with various cleanroom standards set out above, a standalone cleanroom product. The cleanroom which our products were integrated into are tested as a whole to be in compliance with the relevant cleanroom standards.

Quality Management System

We adopt the ISO quality management system. Channel Systems (Asia) and Channel Systems (Shanghai) have obtained the ISO 9001:2015 certification from SGS United Kingdom Ltd for “Manufacturing and Supply of Cleanroom Wall and Ceiling Systems” which are valid until 2 July 2023 and 28 January 2022, respectively. Micron (M) and Micron Technology have obtained the ISO 9001:2015 certification from Bureau Veritas Certification Holding SAS – UK Branch for “Provision of design and fabrication of cleanroom equipment including marketing”, which is valid until 4 December 2022.

We have established and maintained a systematic quality management system and strict standard operating procedures for our quality control and assurance functions, in accordance with the standards set out above. Our quality control division had three members as at 31 March 2020, most of whom have related educational backgrounds and over 10 years of experience in manufacturing industries.

Our quality control managers are required to be familiar with the relevant legal and regulatory requirements applicable to our products, applicable ISO standards and industry standards. They are also required to receive training before performing the relevant quality control tasks. In this respect, we distribute the quality control procedures to our staff and conduct training to our production, engineering and sales employees, so that the relevant employees understand the quality control requirements applicable to our production and operation. Our production manager is responsible for formulating and implementing procedures under our quality management system in accordance with the legal and regulatory requirements as well as ensuring that our product supply chain and production processes are in compliance with stipulated standards and procedures.

Quality Control and Assurance Procedures

Our quality assurance measures cover all aspects of our production processes and operations, including procurement of raw materials and packaging materials, monitoring and quality checks of raw materials, work-in-progress and finished products, as well as integrity and control of goods receipt, handling, storage, preservation and delivery. In every production process, our quality inspectors conduct inspection at key stages according to pre-determined internal standards and inspection conditions and record inspection results in standard forms.

Quality control on our supplies

We purchase raw materials only from approved suppliers, which have been assessed by our procurement team based on a set of selection and evaluation criteria as set out in the paragraph “Selection and evaluation of suppliers and subcontractors” below. Our quality control team conduct sample checks on each batch of supplies in terms of their conformity to our purchase documentation and specifications as well as their surface quality and functionality through visual checking and measurement according to our supplies inspection procedures.

In the event that we detect any substandard or defective raw materials or semi-finished goods, we will return them to the relevant suppliers and may claim compensation in accordance with the terms and warranties of the procurement or subcontracting agreements. Only raw materials and semi-finished goods satisfying all of our specifications and requirements will be accepted and used for our production.

Quality control in manufacturing process

Our quality control team consistently monitor our production processes to verify that our manufacturing processes continue to comply with our standards. We require our production operators to adhere to standard operating and equipment operation procedures and our operation manager regularly inspects our production processes on-site. At particular stages that are critical to production, our quality control team conducts sample check on certain semi-finished products or their components (such as the core, skin and adhesive for making wall panels) as required by approved procedures in order to ensure prompt rectification of problems and cost control. All quality assessment results and any irregularity or non-conformance identified during the production process are recorded in our internal quality control system and corrective actions will be taken as appropriate. In the event of any changes in technical specifications or maintenance of production machinery, we conduct more frequent checks with large sample batches and rectifications on the initial batch and will not proceed to mass production until all requirements and standards are met.

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Quality control on final products

We conduct sample inspection, measurement on our finished products in accordance with our quality control procedures. Before we deliver our final products to customers, our production manager inspects the documentation relating to the quality of a product, including its batch records, production process records and other information that may impact product quality. Final products that do not meet our quality standards are quarantined for rework or scrapped. Depending on the contract terms with our customers, we also cooperate with our main contractors in conducting factory acceptance test or site-acceptance test of the entire cleanroom after fulfillment of the contract and normally provide replacement or repairing of components or products that fail to meet required standard.

We believe that our stringent quality control procedures has contributed to the overall low product return rate and warranty expenses during the Track Record Period.

RAW MATERIALS, SUPPLIERS AND SUBCONTRACTORS

Our raw materials mainly include components for cleanroom, aluminium and steel coil. Other filling and supportive materials that are used in our production or installation include equipment parts and components, rock wool and packaging materials. Our PRC Factory and Malaysia Factory procure pre-processed metal sheets for our production. We also procure semi-finished cleanroom wall and ceiling systems products that are non-crucial to meeting cleanroom standard requirements to meet our contracts needs. We source a majority of our raw materials directly from our selected suppliers in the PRC and Malaysia, who meet our evaluation criteria and are listed on our approved supplier list. We had over 360 approved suppliers as at the Latest Practicable Date. We also purchase certain raw materials from designated brands or pre-approved suppliers of our customers based on their product specifications in the tender documents.

Production Plan

We plan our production based on the delivery schedule in tender agreement or purchase orders of our customers. As our products are customised according to the specifications, application uses and specific needs and requirements of our customers, we generally commence the manufacturing process upon receipt of production orders.

For FY2017, FY2018, FY2019 and 3M2020, the cost of our direct materials was RMB51.3 million, RMB62.4 million, RMB83.2 million and RMB7.1 million, respectively, representing 64.4%, 58.0%, 66.3% and 47.3% of our total cost of sales, respectively. Our direct materials mainly comprised components for cleanroom and aluminium and steel coil during the Track Record Period. See the paragraph “Financial Information — Principal factors affecting our results of operations” for a sensitivity analysis in relation to the cost of raw materials.

We generally do not enter into long term purchase agreement with our suppliers and place purchase orders on an order-by-order basis. We communicate with our major suppliers from time to time to understand the latest price trends. For aluminium and steel coils which are commonly used in our products, we place orders based on inventory level as well as the material required for ongoing and upcoming contracts.

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We have not been subject to material price increases in excess of the general commodity price increase in aluminium and steel by our suppliers during the Track Record Period. We believe that in the event of price increases, we have the ability to respond to a portion of the price increase through conducting prudent budgeting exercise before submission of tender documents and negotiating with our customers for raising the prices of our products.

We maintain more than one supplier for each category of our principal raw materials and therefore have no reliance on any supplier. Although we generally do not enter into long-term supply agreement with our suppliers, we have long-term and stable relationship with our major suppliers. We have not experienced any supply shortage or delay during the Track Record Period and do not anticipate difficulty in procuring raw materials necessary for our production in the future.

Subcontracting

During the Track Record Period, we outsourced the site cleanroom installation services of our products if our customer require such services, in order to better utilise our resources.

Our subcontractors are responsible for carrying out the installation works in accordance with our requirement. Our engineers will supervise our subcontractors' personnel on site for quality assurance.

We do not enter into long term agreement with the relevant subcontractor in order to maintain flexibility. As part of our contract planning after receiving an order from our customer, we engage our subcontractors on need basis, and specify details such as scope of installation work, schedule payment and credit terms. The sub-contracting fees were determined taking into account factors such as project duration and manpower requirement. We generally make back-to-back payments when we receive the payment from the main contractor who request on-site installation service.

For FY2017, FY2018, FY2019 and 3M2020, subcontracting costs were RMB11.4 million, RMB27.9 million, RMB25.7 million and RMB4.3 million, representing 14.4%, 26.0%, 20.5% and 28.3% of our total cost of sales, respectively. Our subcontracting costs more than doubled from FY2017 to FY2018 due to an increase in contracts requiring installation services during that period.

During the Track Record Period, we had not experienced any material interruption of operations as a result of any disputes between our Group and the subcontractors or other uncertainties and contingencies. All our subcontractors during the Track Record Period are Independent Third Parties and none of our Directors or their close associates or any shareholder who owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, had any interest in any of our subcontractors during the Track Record Period.

Selection and evaluation of suppliers and subcontractors

We select suppliers through standard procedures that are formulated in accordance with the ISO 9001 standards. Our procurement department is responsible for sourcing and comparing potential suppliers by filling in our standard supplier evaluation form, taking into consideration factors such as price and payment terms, quality control system and testing measures, production capacity, business reputation and credibility, after-sales services, delivery terms, as well as our customers' preferences.

We also assess our suppliers' performance annually based on their product quality, price, timeliness of delivery, and track record of compliance with our order specifications. Our quality control division is responsible for maintaining records for the performance and qualification of our major suppliers, which are documented with their relevant certifications and quality track records, in order to determine our inspection level for each supplier. If the assessment result of a supplier falls below our standard, we will elevate our inspection scope and frequency, and when necessary, disqualify such supplier from our approved supplier list.

We evaluate and select subcontractors based on their technical capability, service quality, price, management, credibility and track record. We maintain a list of approved subcontractors and prior to approving them to enter into such list, we collect necessary information from them. We also perform review on our approved subcontractors and monitor their performance on a regular basis.

We maintain several subcontractors so that we are not over reliant on any single subcontractor to meet our contractual obligations. We subcontracted installation works which are provided by a large number of local subcontractors. During the Track Record Period, we did not experience any significant difficulties in obtaining our subcontracted services, and we did not encounter any significant problems with the quality of our services.

Top Five Suppliers

For FY2017, FY2018, FY2019 and 3M2020, our purchases from our five largest suppliers represented 32.4%, 43.4%, 31.0% and 46.3%, respectively, of our total cost of sales, and purchases from our single largest supplier accounted for 9.2%, 21.1%, 9.2% and 14.4%, respectively, of our total cost of sales for the corresponding periods.

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The table below set out information of our top five suppliers for the periods indicated:

For 3M2020

Supplier	Background and principal business nature	Principal products supplied	Years of relationship	Transaction amount (RMB million)	% of our cost of sales	Credit terms and payment method
Supplier C	A PRC incorporated company principally engaged in labour subcontracting, equipment installation and cleanroom internal installation business	Installation	3	2.2	14.4	15 days, TT
Supplier B	A PRC registered company principally engaged in the production of aluminum profiles, heat-insulating aluminum extrusion, decorative aluminum extrusion, industrial aluminum extrusion, and Italian super weather-resistant fireproof wood-like aluminum extrusion	Extrusion aluminium	6	1.6	10.8	30 days, TT
Supplier I	A Republic of Korea – registered company principally engaged in the manufacturing of raised access floor system	Floor system	10	1.2	8.1	30 days, TT
Supplier A	A PRC registered company principally engaged in the development, manufacture and construction of air purification products and cleanroom accessories	Cleanroom panels and accessories	5	1.2	7.7	0-120 days, TT
Supplier D	A PRC registered company principally engaged in the production and development of coating products	Roll coated steel coil	9	0.8	5.3	Payment before delivery, TT

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For FY2019

Supplier	Background and principal business nature	Principal products supplied	Years of relationship	Transaction amount (RMB million)	% of our cost of sales	Credit terms and payment method
Supplier A	Please see above.	Cleanroom panels and accessories	5	11.5	9.2	0-120 days, TT
Supplier B	Please see above.	Extrusion aluminium	6	10.3	8.2	30 days, TT
Supplier C	Please see above.	Installation	3	6.9	5.5	15 days, TT
Supplier D	Please see above.	Roll coated steel coil	9	5.6	4.5	Payment before delivery, TT
Supplier E	A PRC registered company principally engaged in raised access floor system	Floor system	12	4.5	3.6	Before delivery, TT

For FY2018

Supplier	Background and principal business nature	Principal products supplied	Years of relationship	Transaction amount (RMB million)	% of our cost of sales	Credit terms and payment method
Supplier C	Please see above.	Installation	3	22.7	21.1	15 days, TT
Supplier B	Please see above.	Extrusion aluminium	6	7.2	6.7	30 days, TT
Supplier A	Please see above.	Cleanroom panels and accessories	5	6.0	5.6	0-120 days, TT
Supplier D	Please see above.	Roll coated steel coil	9	5.9	5.5	Payment before delivery, TT
Supplier G	A PRC registered company principally engaged in the sales of metal, metal materials, hardware, electricity, stone, wood and building materials, business information consulting, landscape engineering, water and electricity installation and provision of exhibition services	Cold roll steel sheet and coated steel coil	6	4.8	4.5	60 days, TT

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For FY2017

Supplier	Background and principal business nature	Principal products supplied	Years of relationship	Transaction amount (RMB million)	% of our cost of sales	Credit terms and payment method
Supplier B	Please see above.	Extrusion aluminium	6	7.3	9.2	30 days, TT
Supplier C	Please see above.	Installation	3	6.4	8.1	15 days, TT
Supplier A	Please see above.	Cleanroom panels and accessories	5	4.7	5.9	0-120 days, TT
Supplier H	A Malaysia incorporated company, principally engaged in the supply of major aluminum extrusion products, which is a subsidiary of a Malaysian company whose shares are listed on the Bursa Malaysia Exchange with a market capitalisation of over RM190 million as at the Latest Practicable Date	Extruded aluminium	20	4.4	5.6	30 days, cheque
Supplier D	Please see above.	Roll coated steel coil	9	2.9	3.6	Payment before delivery, TT

All of our five largest suppliers during the Track Record Period are Independent Third Parties. To the best of our Directors' knowledge, none of our Directors or their respective close associates or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest suppliers during the Track Record Period.

We believe we have built up strong relationship with our major suppliers, and are able to purchase raw materials at competitive prices. We maintain close and stable relationships with them to ensure stability of supply.

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WAREHOUSE AND INVENTORY CONTROL

Our inventory consists of raw materials and work-in-progress products, which generally are constructed of metal and therefore do not have a shelf life. We have a production storekeeper for each of our warehouse facilities in the PRC and Malaysia, who are primarily responsible for managing and recording the movement of raw materials, work-in-progress and final products into and out of our warehouse facilities, and to ensure the stock level as up to date. Our warehouse facilities are located in our PRC Factory, Malaysia Factory and the Additional Warehouse, details of which are set out in “Properties” in this section.

Due to the fact that almost all our products are manufactured with customised design, we do not maintain inventory of finished products, but the products that are yet to be delivered to our customers are also stored at our warehouses. For standard materials that are used commonly in our products, such as aluminium and steel coil, we generally maintain a small inventory for manufacturing approximately 12,500 sq.m. of cleanroom walls and ceiling products and around 250 units of cleanroom equipment. Such level varies according to the progress of our ongoing contracts after taking into account, among others, lead time of raw material procurement and production lead time of our major products.

We adopt inventory management policies and manage our inventory on a first-in-first-out basis to maintain reasonable inventory levels and ensure on-time delivery of our finished products to our customers. Pursuant to such policies, we carry out inventory control measures such as (i) monitoring the inventory movement of each type of raw materials; (ii) imposing identification and traceability procedure for all incoming and outgoing goods, which defines how goods are handled, stored, preserved, packaged and traced in each warehousing stage; and (iii) requiring our stockkeepers to maintain proper labelling for different types of goods to support inventory inspection and quality control. In addition, we have security measures and fire safety system in our warehouse to prevent against loss or damage of goods. We make impairment provisions as appropriate for our inventory taking into account factors such as their useful lives and how commonly used are those raw materials.

RESEARCH AND DEVELOPMENT

We believe our research and development capabilities will be the driving force for our long-term competitiveness, as well as our future growth and development. Our market-driven research and development efforts focus on the objectives of (i) expanding our product portfolio, (ii) improving our existing products to keep abreast of cleanroom technology, and (iii) addressing the varying customisation requests of our customers, which involve new specifications and testing, among others. We conduct our research and development activities through our in-house research and development team, as well as in collaboration with external research partners from time to time to pursue specific research targets.

Typically, our marketing personnel proposes new products or research topics based on information collected from the market. Our research and development team will then work with our sales department to conduct a feasibility study in terms of both the technicality and commercial prospects on the proposed product. Where the proposed product is considered feasible, a research team comprising our marketing personnel and engineers will be formed to develop the proposed product.

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Our research and development expenses accounted for 4.4%, 3.0%, 3.0% and 3.4%, respectively, of our revenues in FY2017, FY2018, FY2019 and 3M2020, respectively. Our research and development expenses mainly consisted of time-cost of our staff and material costs during the Track Record Period. Going forward, we expect to continue our investment in research and development efforts enhance our existing products and diversify our products to cater for the needs of customers from more industries. See the paragraph headed “— Our Strategies — Continue to invest in research and development to enhance existing products and diversify our product offering” in this section for further details.

Our In-house Research and Development

We have a strong in-house research and development team, which is headed by our research and development team manager, and consisted of 16 members as at 31 March 2020. A majority of our research and development team members have an average 10 years of relevant industry experience. Our research and development team manager has a higher diploma holder and has had more than 20 years of experience in the cleanroom construction industry. Our in-house research and development capabilities are mainly in cleanroom wall and ceiling, building materials and accessories and cleanroom equipment, to (i) improve our technical offerings for customised cleanroom products applicable to various industries such as data centre and pharmaceutical cleanroom, and (ii) extend our range of cleanroom product portfolio.

During the Track Record Period, our in-house research and development efforts had resulted in the development of numerous cleanroom products and product designs, which had led to our patent registrations. For further details of our intellectual property rights, see “Statutory and General Information — B. Further information about our Business — 2. Material Intellectual property rights” in Appendix V to this prospectus.

External Research and Development Initiatives

During the Track Record Period, we have also engaged an external research partner to leverage on their research talent base and to supplement our in-house research capability. We had an one-off engagement with a tertiary institution in the PRC in FY2017 for the development of walls and ceilings products including new demountable walls and doors products, adjustable walls systems, door frameworks, LED lightning ceiling systems and ceiling structure frameworks. We provided for the funding of these initiatives and we are entitled to the technical data and research outcome and intellectual property rights (if any) from these research initiatives. There are no profit sharing arrangements between our Group and these research partners.

We plan to look for further collaboration opportunities with other industrial partners, such as engineering companies, with the appropriate expertise and experience to develop new products with advanced or new technology. We believe that this approach will broaden our product range and customer base as well as further enhance our brand image.

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INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had 29 registered patents and 1 pending patent application in the PRC, which mainly fall in the category of cleanroom walls and panels. We have also registered a total of 1 trademark in Malaysia for our cleanroom products and services. Furthermore, we are the registered owner of 14 software copyrights and 2 domain names, which are that of our corporate websites. For details of our intellectual property rights, see “Statutory and General Information — B. Further information about our business — 2. Material intellectual property rights” in Appendix V to this prospectus.

To protect our proprietary rights, we have entered into employment contracts incorporating a clause on confidentiality with our senior management and employees of the research and development department and other employees who have access to secrets or confidential information of our Group. Our senior employees and employees who work in our research and development department and other technical departments are required to sign agreements acknowledging that we own the rights to all inventions, technology know-how and trade secrets generated in connection with their employment with us or their use of our resources or relating to our business or our property.

To the best of our Directors’ knowledge and belief, during the Track Record Period, there were no material instance of infringement of intellectual property rights or disputes between our Group, our customers and other third parties in respect of intellectual property rights.

QUALIFICATIONS, AWARDS AND RECOGNITIONS

Our achievements over the years have been recognised by numerous awards, including the following:

Award/Qualification	Year	Issuer of Award/Qualification
Excellent Subcontractor Award	2016	M+W Shanghai Co., Ltd. AUO Project Department (美施威爾(上海)有限公司 AUO項目部)
Excellent Performance Award	2016	M+W Group Intel CD ATT Project Team
Subcontractor Safety, Civilization and Advancement Award* (安全文明施工優秀承包商)	2018	M+W Group National Data Centre Project (Phase One) 2 million Safe Working Hours Celebration* (國家存儲器基地項目(一期)無塵室包200萬安全工時慶典)
SMNC B2B 6K Project Subcontractor Safety and Advancement Award* (安全先進承包商)	2018	M+W Shanghai Co., Ltd. (美施威爾(上海)有限公司)

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Award/Qualification	Year	Issuer of Award/Qualification
Advancement Organisation* (先進單位)	2018	Huali 12 Inches Advanced Production Line Construction Project* (華力12英寸先進生產建設項目)
CE certification for Micron Air Shower	2018	UK Certification & Inspection Ltd.
FM certificate of compliance for Stud Systems, Studless Systems, Frontload Systems, Cladding Systems, Caulking Systems, CG2000 Series, PG3000 Series, T-G2004 Series and Walkable Ceiling Blank Panel	2019	FM Approvals
CE certification for Microntech Fan Filter Unit	2019	UK Certification & Inspection Ltd.
High and New Technology Enterprise* (高新技術企業)	2019	Shanghai Municipal Science and Technology Commission* (上海市科學技術委員會), Shanghai Municipal Finance Bureau* (上海市財務局), State Taxation Administration Shanghai* (國家稅務局上海市)
Subcontractor Advancement Award* (先進包商)	2019	The Fourth Construction Co., Ltd. of China Electronics System Engineering semiconductor engineering centre Shanghai GTA Construction Project* (中電四半導體工程中心上海積塔項目部)
Safe production excellency award* (安全生產優秀班組獎)	2019	Inner Mongolia Zhonghuan Biaoxin Photovoltaic Materials Co., Ltd. Industrialization of monocrystalline silicon materials for renewable energy, solar electromagnetic applications Phase 5 Construction Project* (內蒙古中環標鑫光伏材料有限公司可再生能源太陽能電磁用單晶矽材料產業化工程五期項目)
Subcontractor excellency award* (優秀承包商)	2019	Exyte Shanghai Co., Ltd. (益科德(上海)有限公司)

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Award/Qualification	Year	Issuer of Award/Qualification
Subcontractor excellency award* (優秀包商)	2019	China Electrnics System Engineering No. 2 Construction Co. Ltd. Huahong Wuxi Construction Project* (中國電子系統工程第二建設有限公司華虹無錫項目部)
Subcontractor excellency award* (優秀包商)	2019	China Electrnics System Engineering No. 2 Construction Co. Ltd. Huahong Wuxi Construction Project* (中國電子系統工程第二建設有限公司華虹無錫項目部)
Economic activity Advancement Organisation Improvement Award* (經濟工作先進單位“成長進步獎”)	2020	Central New Chuansha Town Committee* (中央川沙新鎮委員會)
Excellent Subcontractor Award* (優秀包商獎)	2020	China Electronics System Engineering No.2 Construction Co., Ltd., Huahong Wuxi BGBM Reconstruction Project* (中國電子系統工程第二建設有限公司華虹無錫BGBM改造項目)

MARKET AND COMPETITION

According to the F&S Report, there are around 20 cleanroom facility suppliers including product suppliers and system integrators in Malaysia, with the top 5 suppliers holding over 36.3% of the total market size. The top supplier is a foreign company with strong global presence. The Company had a market share of 8.3% in Malaysian cleanroom facility market in 2019. Regarding the Southeast Asian cleanroom facility market in 2019, the Company took 0.6% of the total market size. On the other hand, the cleanroom facility market is much more diversified in the PRC, with the top 10 players accounted for 18.5% of the total market share in terms of revenue in 2019. According to the F&S Report, our Group accounted for a market share of approximately 1.1% in the PRC cleanroom wall and ceiling system market in 2019.

According to the F&S Report, the main entry barriers to the cleanroom facility market in Southeast Asia include: (i) requirement from customers for industry experience and good track records to ensure product quality; (ii) strong demand for cleanroom facility manufacturers to have stronger technology level, innovation capabilities and keen market perception to maintain competitiveness with existing key players; and (iii) requirement to have strong customer resources, as customers tend to purchase cleanroom products from the same cleanroom products supplier they have worked with before due to competitive pricing and quality guarantee, whereas the entry barriers to the cleanroom facility market in the PRC include (i) regulatory compliance to several regulations or standards such as ISO 9001 or new version GMP of China; (ii) requirement for support of technology and experienced technicians to follow a series of particular requirements, which is difficult to be obtained by new entrants; and (iii) requirement from customers for cleanroom parts and engineering service providers to have similar project experiences previously, which can also help them win new projects more easily or take reconstruction work of their previous projects, as well as helping with their brand effects and enhance their market position.

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According to the F&S Report, our major competitive strengths include: (i) High quality of products – we targets the middle to high-end markets of cleanroom facility and provides customers with high-quality products, and we have highly qualified production workshops and production lines, which ensure the consistency of the quality of our cleanroom products. Further, we provide ISO14644–1, FDA and China new GMP compliant cleanroom systems and quality equipment to international well-known companies across different high-tech industries; (ii) Experienced technical staff – we have experienced technical staff who possess extensive experience from well-known projects in the cleanroom facility industry. As such, we are able to provide more competitive products and services for our clients; (iii) Good brand reputation – We have good reputation in the cleanroom facility market, especially in the semiconductor sector, which brings us growing new business and close relationship with existing customers, and we are the preferred brand for certain clients in the market; and (iv) Good track record of global services – We have a good track record of global services, which gives us a strong advantage over our competitors, and we are capable of providing not only high-quality product design and manufacturing, but also comprehensive after-sales services and quick response to our clients' needs.

It is envisaged that there will be increasing demand for cleanroom facilities in the medical and healthcare, as well as the food and beverage industries in Southeast Asia. In the PRC, it is envisaged that there will be pressure on cleanroom facilities companies to strengthen their R&D capability to satisfy the changing market demand. We believe that our proven track record, solid business relationship with customers and ability to expand our customer base, as well as our technical expertise and strategy to continue to invest research and development, will enable us to continue our growth and enhance our profitability going forward. For details, please see “Our strengths” and “Our strategies” in this section.

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EMPLOYEES

We had a total of 163 employees as at 31 March 2020, all of which are full-time employees. Set forth below is a breakdown of the number of our employees by function and geographical location as at 31 March 2020:

Function	Malaysia	The PRC	The Philippines	Sub-total
Management	4	1	0	5
Sales and marketing	3	1	2	6
Project and engineering	9	12	11	32
Finance and accounts	11	6	2	19
Human resources and administrative	3	4	1	8
Logistics and purchasing	2	3	2	7
Production	56	30	0	86
Total	88	57	18	163

We review the policies and procedures for recruitment, promotion, training and appraisals of our employees from time to time to attract and retain talents. During the Track Record Period, our employees were mainly recruited through online platforms, recruitment agencies or by referral.

For ad-hoc contracts in the Philippines, we source labour through a licensed contractor. We normally enter into contracts with a contractor that are renewed annually with no minimum commitment. Pursuant to such contracts, we give instructions to the contractor as to the tasks required for our contracts and the contractor manage their workers to complete the tasks specified generally at the facilities of our customers. We pay the contractor based on the number of workers dispatched and workdays. All of such workers are local workers. The licensed contractor is primarily responsible for the cost of social insurance of such workers. As advised by our Philippines Legal Advisers, such arrangements are in compliance with applicable laws and regulations of the Philippines.

The remuneration package of our employees includes basic salary, overtime payment and discretionary bonus, which are generally determined with reference their qualification, experience and work performance and are reviewed as part of our internal appraisal process on an annual basis. We also provide our employees with various social security and welfare plans in accordance with the requirements under applicable laws, regulations and existing policies (if any) of the PRC, Malaysia and the Philippines. During the Track Record Period, our total staff costs were approximately RMB21.2 million, RMB22.4 million, RMB26.9 million and RMB5.0 million, respectively, which accounted for about 15.4%, 12.6%, 13.0% and 18.8% of our total revenue for the corresponding periods. See “Directors and senior management — Board diversity” for our commitment to promote diversity in our Board.

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We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we provide both induction and on-the-job training to equip our employees with the necessary corporate information, industry intelligence and technical knowledge in relation to their individual functions. In particular, new employees at our production facility receive training pertinent to their job duties, which cover topics such as production safety knowledge, as well as procedures and protocols relating to quality control. These trainings are conducted by the respective department heads on an as-needed basis. See the paragraph headed “Health, Work Safety, Social and Environmental Matters” in this section for further details on our safety training.

Our Directors confirm that during the Track Record Period, our Group had not encountered any material industrial disputes with our employees, which would have materially adversely affected our business operations and financial performance.

INSURANCE

As at the Latest Practicable Date, we maintained insurance plans covering risks in respect of (i) employer’s liability, (ii) damage to and burglary of our machineries, property and inventory, (iii) loss of our cash asset and (iv) damage to and theft of our motor vehicles. In addition, we are subject to the PRC’s social insurance system and are required to make contributions for our PRC employees to their basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. As confirmed by our Malaysia Legal Advisers, our Malaysian subsidiaries have duly paid the statutory contributions as required for the Employees’ Provident Fund (EPF), Social Security Organisation (SOCSO), Employees’ Insurance Scheme (EIS) and contribution under the Human Resources Development Act 2001 (HRDA). In light of the commencement of Movement Control Order in Malaysia on 18 March 2020, Malaysia’s Human Resources Minister, Datuk Seri M. Saravanan had on 31 March 2020 announced that due to COVID-19 global pandemic in Malaysia, all the employers registered under HRDA are provided with a stimulus package which includes a six (6) months levy exemption from April 2020 to September 2020. As confirmed by our Philippines Legal Advisers, Micron Cleanroom is subject to registration with the Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund for its employees. We generally do not maintain insurance for product liability which would generally be purchased by our main contractors. For our subcontractors, we require them to maintain third-party liability insurance and personal accident insurance.

Our Directors consider that our insurance coverage is adequate for our business and is consistent with the practice of the cleanroom contractor industry in locations that we operate. Please see “Risk Factors — Our insurance coverage may not be sufficient to cover all risks involved in our operation.” for risks associated with our insurance coverage.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Our business is subject to certain health, work safety, social and environmental laws and regulations in the jurisdictions in which we operate. See “Regulatory Overview” for further details.

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During our production process, we mainly generate solid waste such as scrap metal. We have in place standard environmental control procedures to manage, treat and reduce the pollution and wastage. We have engaged a third party licensed company to collect and dispose of scrap metal. Our Directors believe that we have adopted adequate and effective measures to prevent and control pollution and wastage in line with the industry norms and in accordance with applicable environmental laws and regulations.

We are committed to providing a safe and healthy working environment for our employees and have implemented our internal operational safety guideline. According to the guideline, new employees must complete our internal safety training before working, all workers in our production facilities are required to follow our safety manual and wear protective gears, the leader of each production team is responsible for monitoring and ensuring the practice of safety measures. In the PRC, we only engage qualified contractors to work on construction site, which by the relevant regulations, required a safety supervisor. Our safety supervisor in our PRC Factory has been certified by Shanghai Safety Production Association* (上海市安全生產協會). In addition, our customers who act as the main contractors of the projects usually provide safety trainings at the construction sites.

We also have in place various measures to prepare ourselves for any safety emergencies. We have issued a procedure for emergency escape plan which, among others, details the steps to be taken by our staff if they discover a fire outbreak and specifies the usage and maintenance of fire service equipment, and the emergency escape route. We also have in place a natural disaster reaction plan listing out the preventive actions, trainings, monitoring and reporting arrangements to raise awareness among our employees as well as to maintain operations in case of natural disaster.

There were no material work injuries during the Track Record Period. We maintain insurance plans and proper records for incidents of work injuries that happened. See the paragraph headed "Insurance" in this section for further details. We have not been subject to any material claim or penalty in relation to health, work safety, social and environmental protection and have not been involved in any accident or fatality in all material aspects during the Track Record Period. Our Directors consider that the annual cost of compliance with the applicable health, work safety, social and environmental laws and regulations was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

PROPERTIES

The following table sets out details of the property that we owned as at the Latest Practicable Date.

Location	Approximate total site area (sq.m.)	Usage
Lot P.T. 14274, Jalan SU 8, Persiaran Tengku Ampuan, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia	4,515	Production facilities, warehouse, office premises

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As at 31 March 2020, the owned property had a carrying amount of 10% or more of our total assets. See “Valuation report” in Appendix III for such properties valued by our property valuer. Save and except for this owned property, our Directors confirmed that as at 31 March 2020, no single property interest of ours had a carrying amount of 15% or more of our total assets.

The following table sets out the properties that we lease and occupied for our production facilities, warehouses and office premises as at the Latest Practicable Date.

Location	Approximate total site area (sq.m.)	Usage	Expiry of tenancy agreement
Building 24, Chuansha International Precision Park, No. 6999 Chuansha Road, Pudong New Area, Shanghai*, The PRC (上海市浦東新區川沙路6999號川沙國際精工園第24幢廠房)	2,371	Production facilities, warehouse, office premises	30 November 2021
Units 906 and 910, Page I Building, 1215 Acacia Ave. Madrigal Business Park, Ayala Alabang, Muntinlupa City, Philippines	109	Office premise	31 December 2020
No. 2 Jalan Ringgit 23/11, Section 23, 40300 Shah Alam, Selangor, Malaysia	1,713	Warehouse	31 March 2021

The remaining terms of the lease agreements for the above property(ies) range from less than one year to two years. In the event that we are not able to renew any of our leases, we believe that we could relocate our operations to new properties without due cost or material disruption to our business.

LEGAL AND COMPLIANCE MATTERS

Our Group has subsidiaries in the PRC, Malaysia and the Philippines. A summary of the key laws and regulations which are applicable to our Group’s operations is set out in the section headed “Regulatory Overview” in this prospectus.

Licences and Permits

During the Track Record Period and up to the Latest Practicable Date, we had obtained all material licences and permits in the PRC, Malaysia and the Philippines for operation of our business or financial condition, and such licences and permits are still valid and in force. We have not experienced any refusal of the renewal application of any material licences or permits necessary for the operation of our business.

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Our material licenses, permits and approvals include the following:

Type	Company	Issuing body	Effective date	Expiry date
Malaysian licenses/permits and approvals				
Industry Licence	Micron (M)	Shah Alam City Council	1 January 2020	31 December 2020
Industry Licence (Business Office)	Micron (M)	Shah Alam City Council	3 August 2020	31 July 2021
Manufacturing License	Micron Technology	Ministry of International Trade and Industry	14 October 2019	No expiry date
Licensed Manufacturing Warehouse License	Micron Technology	Royal Malaysian Customs Department	1 October 2018	30 September 2020 ⁽¹⁾
Industry Licence	Micron Technology	Shah Alam City Council	1 January 2020	31 December 2020
Industry Licence (Business Office)	Micron Technology	Shah Alam City Council	3 August 2020	31 July 2021
Manufacturing License	Channel Systems (Asia)	Ministry of International Trade and Industry	26 March 2007	No expiry date
Licensed Manufacturing Warehouse License	Channel Systems (Asia)	Royal Malaysian Customs Department	1 September 2020	31 August 2022
Store/Warehouse Licence	Channel Systems (Asia)	Shah Alam City Council	1 January 2020	31 December 2020
Store/Warehouse License	Channel Systems (Asia)	Shah Alam City Council	19 May 2020	14 March 2021
Industry Licence (Business Office)	Channel Systems (Asia)	Shah Alam City Council	12 July 2020	14 July 2021
Malaysian Construction Industry Development Board License	CSA Technic	Malaysian Construction Industry Development Board	21 May 2020	20 May 2021
Industry Licence	CSA Technic	Shah Alam City Council	6 May 2020	14 April 2021
Philippine licenses/permits and approvals				
LGU Permit	Micron Cleanroom	City Government of Muntinlupa	22 January 2020	30 September 2020 ⁽²⁾
BIR Registration	Micron Cleanroom	Bureau of Internal Revenue	24 April 2009	No expiry date
BOC Accreditation	Micron Cleanroom	Bureau of Customs Manila	28 June 2019	26 June 2021
Registration with the Department of Labor and employment	Micron Cleanroom	Department of Labor and Employment	31 August 2017	No expiry date

Note:

1. Micron Technology has submitted an application for a renewal of its Licensed Manufacturing Warehouse License (“**LMW License**”) under Section 65 / 65A of the Malaysian’s Customs Act 1967 for the operation of its business on 14 August 2020. Subsequently, 2 officers from the Industrial Branch (Cawangan Perindustrian) at the Royal Malaysian Customs Department have conducted an inspection on Micron Technology’s business premises with regards to Micron Technology’s application for the renewal of the LMW License on 7 September 2020.
2. Micron Cleanroom would be able to validly maintain its operations from 30 September 2020, without penalties, surcharge and interest, as long as it secures the renewal of its business permit prior to 20 October 2020.

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Further information on the material licences and permits necessary for the operation of our business is set out in “Regulatory Overview”.

Our Directors confirm that as at the Latest Practicable Date, to the best of their knowledge and belief, we had obtained all necessary approvals, permits, licences and certificates that are material to our business operations and have not been subject to non-renewal or conditional renewal of material licences and permits from the relevant government authorities or have any legal impediment in renewing such material licences.

Legal compliance

During the Track Record Period and up to the Latest Practicable Date, we complied with the relevant laws and regulations in relation to our business in all material respects and there were no material breaches or violations of the laws or regulations applicable to our Group that would have a material adverse effect on our business or financial condition taken as a whole.

Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our business, financial condition or results of operations.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors are responsible for the formulation of and for overseeing the implementation of the internal control measures and the effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. In accordance with the applicable laws and regulations, we are in a continuous process of establishing new procedures and adjusting existing procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, regulatory compliance, finance and accounting, as appropriate for our needs. We did not engage in foreign currency hedging. Our Directors closely monitor our foreign exchange risks exposure and take such factor into account in pricing our products and negotiating our contract terms. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness.

In order to ensure that our internal control procedures are sufficient for management of external and internal risks, we have engaged an internal control consultant to conduct a review of our internal control policies with respect to entity-level controls, revenue management, expenditure management, human resources management, fixed asset management, cash and treasury management, financial and accounting procedures and information system general control, and we are in the process of implementing the relevant recommendations proposed by our internal control consultant.

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As our business continues to expand, we will refine and enhance our internal control systems to respond to the evolving requirements of our expanded operations as appropriate. We will continue to review our internal control systems to ensure compliance with applicable regulatory requirements.

Corporate Governance and Risk Management

We continuously strive to strengthen the role of our Board as a body responsible for decision-making concerning our fundamental policies and upper-level management issues, and supervising the execution of our operation. Our Board includes three independent non-executive Directors to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge.

We are exposed to various risks in the operations of our business and we believe that risk management is important to our success. Key operational risks faced by us include, among others, changes in general market conditions, changes in the regulatory environment and availability of financing to fund our expansion and business operations. See “Risk Factors” for further details of disclosures on various risks we face. In addition, we also face various market risks, such as changes in market prices, foreign exchange, interest rate, credit and liquidity risks that arise in the normal course of our business. See “Financial Information — Risk Management” for further details.

Our Board is responsible and has the general power to manage the direction of our Company, and is in charge of the overall risk control of our Group. Any significant business decision involving material risks, such as decisions to expand into new businesses or geographic regions or construction of facilities are reviewed, analysed and approved by our Board to ensure a thorough examination of the associated risks at our highest corporate governance body. We also maintain insurance coverage which we believe is in line with the customary practice of the industry.

We have strengthened our auditing system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the audit committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our financial controls, internal control and risk management systems.

Recent outbreak of COVID-19

Beginning early 2020, the PRC and certain countries around the world encountered an outbreak of the novel coronavirus named COVID-19 by the WHO, a highly contagious disease. On 11 March 2020, WHO characterised COVID-19 as pandemic.

Our principal business operations are located in the PRC, Malaysia and the Philippines. In view of the recent outbreak, a number of provinces and municipalities in the PRC have activated level I (the highest-level) response to public health emergencies, and some cities and provinces adopted various strict measures to curb the spread of COVID-19. For instance, Wuhan was locked down as part of the effort to quarantine the then epicentre of COVID-19 and to contain the

spread of such outbreak. Similar lockdown measures were imposed on other cities in Hubei Province as well as municipalities such as Beijing and Shanghai. With the gradual lowering number of reported cases in the PRC, the government reclassified all counties as low-risk for COVID-19. Most of the inter-provincial travel restrictions have been lifted, and citizens from regions classified as low-risk for COVID-19 with green “health code”, a color-coded health system used by the authorities, are generally allowed to move within the country without the need to be quarantined. To better control the pandemic, businesses with operations resumed have to follow the standard operation procedures set out in the “Guidelines for the Measures for the Prevention and Control of the COVID-19 Outbreak in the Resumption of Operation and Production of Enterprises and Public Institutions in Different Risk Areas across the Country issued by the State Council of the PRC” issued by the State Council of the PRC on 9 April 2020. The Shanghai Municipal Government also encourages corporations in Shanghai to conduct voluntary COVID-19 testing for their employees who returned from other provinces at their own expenses.

In Malaysia, there have been over 9,500 confirmed cases of COVID-19 as at the Latest Practicable Date. The Prime Minister Tan Sri Dato’ Haji Muhyiddin Bin Mohd Yassin (“**Prime Minister**”) responded by implementing a nationwide Movement Control Order (“**MCO**”) from 18 March 2020 until 3 May 2020. Such order, amongst other measures, imposed a restriction of movement and assembly within the country, during which all education institutions, government and private business premises, except those providing essential services as listed in the Federal Government Gazette of Malaysia (for example, healthcare and medical, telecommunication and food supply services), were closed. The MCO was then replaced by the Conditional Movement Control Order (“**CMCO**”) announced on 1 May 2020 which allowed the majority of businesses to resume operations from 4 May 2020 onwards. Following the announcement by the Prime Minister on 10 May 2020, the CMCO was further extended to 9 June 2020. On 7 June 2020, the Prime Minister replaced the CMCO with Recovery Movement Control Order (“**RMCO**”) effective from 10 June 2020 to 31 August 2020. Subsequently, the Prime Minister on 28 August 2020 announced the RMCO extension until 31 December 2020.

Notwithstanding the above, companies which applied for permission to resume operations and were given approval from MITI were allowed to resume operations at half of the maximum capacity before 4 May 2020. Thereafter, MITI has announced on its official website portal that economic sectors which were given approval and allowed to operate during the MCO period were permitted to increase the operation capacity to full capacity and that the companies which have obtained MITI’s approval to operate were not required to re-apply to increase the workforce capacity, effective from 29 April 2020. After 4 May 2020, most of the businesses and industries (including manufacturing companies) were allowed to resume operations at full capacity except for certain economic activities which fall under the List of Prohibited Activities such as entertainment industry, laundry shop and hair salon. To the best knowledge of our Directors, it is unlikely for the Malaysian operations’ customers and suppliers to fall into those restricted industries.

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Such companies which were allowed to resume operations under the CMCO will be guided by the standard operating procedure (“**SOP**”) provided by MITI and Ministry of Health of Malaysia. Main requirements of safety measures as stated in the SOP include the implementation of (i) mandatory measurement of body temperature of every employee and visitor before entering the Malaysian companies’ premises; (ii) mandatory wearing of face mask by all employees and visitors within the companies’ premises; (iii) maintaining social distancing of at least 1 meter apart in all circumstances within the office premises and production area; (iv) encouragement of frequent usage of hand sanitizer by the employees; and (v) disinfection of the companies’ premises are done twice a day especially in common spaces and three times a day for manufacturing companies.

An additional SOP is imposed on the sector of manufacturing companies by MITI and Ministry of Health of Malaysia whereby (i) protocols on the prevention of COVID-19 must be provided by the employer of a company; (ii) monitoring and record keeping of the status of all the employees in the company must be done; (iii) hand sanitizer must be provided to the employees at the reception, common area and factory area; and (iv) disinfection of the company’s cars after every usage is required.

Under the RMCO, some of the activities in the List of Prohibited Activities are allowed to reopen namely barbershops, hair salons, beauty parlours and markets with guided SOP. Besides, the requirement to obtain approval or permit for interstate travel was lifted. All businesses and individuals in public places have to comply with the SOP issued by the National Security Council which includes (i) maintain a physical distance of at least 1 meter between 2 individuals in accordance to the space of the area/ premises/ building and avoid close contact with other people such as physical greetings; (ii) mandatory to wear face masks when you are coughing, sneezing, having flu or sore throat and in public places; (iii) frequently wash hands using soap / water or hand sanitizer; (iv) obey the guidelines set by the Government in relation to overseas travelling; (v) obey the guidelines set by the Ministry of Health of Malaysia or relevant Agencies when conducting leisure activities or assembly which involves many people; (vi) encouraged to carry out transactions online when conducting sale and purchase activities; (vii) seek medical attention immediately should there be any symptoms; and (viii) use the MySejahtera mobile application for contact tracing and to record all relevant details upon entering a premises.

In the Philippines, there have been over 250,000 confirmed cases of COVID-19 as at the Latest Practicable Date. President Rodrigo Duterte signed a proclamation declaring a state of public health emergency due to the threat of COVID-19 outbreak on 9 March 2020, at the recommendation of the Department of Health. The government of the Philippines also implemented a travel ban since February 2020 restricting entry of foreigners from countries and regions including the PRC, Hong Kong and Macau. On 12 March 2020, the government further imposed the Stringent Social Distancing Measures in the capital city of the Philippines, Metro Manila, and the entire Luzon was later placed under Enhanced Community Quarantine (“**ECQ**”) effective from 17 March 2020 until 12 April 2020. On 7 April 2020, President Rodrigo Duterte approved the extension of the ECQ over Luzon until 30 April 2020. A further extension of the ECQ until 11:59 pm of 15 May 2020 was announced on 24 April 2020, covering only Metro Manila, Central Luzon except Aurora Province and Calabarzon and other high-risk provinces. Under the enhanced measure, a strict home quarantine was observed and public movements have been limited to accessing basic necessities. Work from home arrangement has been

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implemented by the executive branch of the government with certain exceptions, and only private organisations providing basic necessities and activities related to food and medicine production are allowed to remain open. However, Business Process Outsourcing establishments and export-oriented industries, subject to the imposition of strict social distancing measures by employers, are allowed to remain operational. Provinces not covered by the further extended ECQ were placed under General Community Quarantine (“**GCQ**”) under the Omnibus Guidelines on the Implementation of Community Quarantine in the Philippines as recommended by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (“**Omnibus Guidelines**”). On 12 May 2020, the Philippine Government announced that the National Capital Region (“**NCR**”), Laguna, Cebu City, and other high-risk provinces were placed under Modified ECQ (“**MECQ**”) from 16 May until 31 May 2020. Under the MECQ, industries such as manufacturing and processing plants were allowed to operate. Moderate-risk provinces including Cavite were placed under GCQ from 16 May until 31 May 2020.

On 29 May 2020, the Philippine Government placed NCR and Region IV-A, which includes Cavite and Batangas, under GCQ from 1 June 2020 until 15 June 2020. On 15 June 2020, the Philippine Government extended the GCQ over NCR and Region IV-A until 30 June 2020. On 29 June 2020, the Philippine Government extended GCQ over NCR and Cavite and MGCQ over Batangas until 15 July 2020. This was further extended until 31 July 2020. On 2 August 2020, the Philippine Government reclassified and placed NCR and Cavite under MECQ from 4 August 2020 to 18 August 2020. This was later on downgraded to GCQ from 19 August 2020 to 31 August 2020. On 31 August 2020, the Philippine Government extended GCQ over NCR and Batangas, and MGCQ over Cavite until 30 September 2020.

Under ECQ, in general, only those private establishments providing basic necessities and such activities related to food and medicine production may open during the ECQ. Construction work is limited to construction of quarantine and isolation facilities. During the period of ECQ over Luzon, export enterprises, including two of Micron Cleanroom’s end-user/customers, were allowed to operate with a skeleton workforce, subject to strict observance of social distancing measures and provision of temporary accommodation arrangements or shuttle service.

Under Department of Trade Industry Memorandum Circular No. 20-14 (“**DTI MC 20-14**”), export enterprises and their support service providers which are necessary for the operations of the export enterprise, are allowed to operate during the ECQ. Under ECQ, installation work may be allowed only if the same is a “support service necessarily required in the operations” and only if the support service personnel are able to secure certification from the export enterprise for the unhampered travel of personnel through checkpoints.

Under GCQ, movement of persons is limited to accessing essential goods and services, and for work in the offices or industries permitted to operate under the Omnibus Guidelines.

Under the Omnibus Guidelines, export-oriented enterprises are allowed to operate at full operational capacity. Industries engaged in the “repair and maintenance” are allowed to operate anywhere between 50% to full capacity, while non-leisure wholesale establishments are allowed to operate up to 50% operational capacity during GCQ, without prejudice to work-from-home and other alternative work arrangements. All public and private construction projects shall be allowed, but with strict compliance to the issued safety guidelines.

Our ongoing projects and business operations

We have assessed the impact of the outbreak of COVID-19 on our business operations in the PRC, Malaysia and the Philippines.

(a) Our operations

(1) In the PRC

In response to the relevant PRC government authorities' requirement for companies to extend the final day of the Chinese new year Holiday from 30 January 2020 ("**Lunar New Year Holiday**") until 10 February 2020, we temporarily suspended our business operations from 31 January 2020 (being the original first day of business resumption after Lunar New Year Holiday) to 11 February 2020. We have resumed operation of our PRC office and production facility since 12 February 2020 but were only able to maintain reduced level of operation as our operation was still subject to the various lockdown measures and transportation restrictions for inter-provincial travels. Until the compulsory quarantine requirement is relaxed, our staff were subject to compulsory 14-day quarantine when travelling to other provinces and thus our ability to deliver immediate on-site quality assurance and supervision support was curbed. Delivery time of our wall and ceiling systems had also been lengthened. To the best of our knowledge, the operations of some of our major customers were affected in a similar manner. As a result, our operation in February 2020 was almost completely halted and our business was adversely affected. By May 2020, the situation had gradually improved when the travel restrictions in various provinces had been lifted and our workers could travel to worksites to provide service when needed. As at the Latest Practicable Date, we confirmed that our operation had resumed to normal and all our on-going projects in the PRC had either resumed operations or commenced.

(2) In Malaysia

As a result of compulsory implementation of the Prevention and Control of Infectious Diseases (Measures within the Local Infected Areas) Regulations 2020 published by the Federal Government Gazette under the MCO, we have temporarily suspended all our Malaysian operations from 18 March 2020 until 3 May 2020 except for CSA Technic and Channel Systems (Asia). CSA Technic resumed business operations at half capacity on 19 April 2020 with MITI's approval. As for Channel Systems (Asia), business operations were suspended from 18 March 2020 until 27 April 2020. The business operations were resumed at half capacity on 28 April 2020 after obtaining approval from MITI. Business operations for all our Malaysian operations were resumed at full capacity on 4 May 2020.

(3) In the Philippines

In the Philippines, as a result of the Memorandum from the Executive Secretary on "Stringent Social Distancing Measures and Further Guidelines for the Management of the Coronavirus Disease 2019 (COVID-19) Situation" issued on 13 March 2020, the Memorandum from the Executive Secretary on "Additional Guidelines for the Community Quarantine over the Entire Luzon and Management of the Coronavirus Disease 2019 (COVID-19) Situation" issued on 18 March 2020 and Executive Order No. 112 issued by the President of the Philippines on 30 April 2020 "Imposing an Enhanced Community Quarantine in High-Risk Geographic Areas of the

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Philippines and a General Community Quarantine in the Rest of the Country from 1 to 15 May 2020, Adopting the Omnibus Guidelines on the Implementation Thereof, and For Other Purposes”, we temporarily suspended our local operation in the Philippines from 15 March 2020. On 13 and 19 April 2020, we were asked by two of our major customers/end-users who are ecozone-registered export enterprises to resume installations in their facilities in order for them to continue their operations without loss of production capacity, to the extent allowed under current regulations. In compliance with existing Philippine Government regulations, we were provided with certifications from our customers, who are export enterprises, to allow our personnel to travel during ECQ. Our personnel have been provided with on-site or near-site accommodations.

Based on the representation of Micron Cleanroom, our two export enterprise customers/end-users and documents provided, our Philippine Legal Advisers confirm that our limited resumption of installations services during the MECQ as necessitated by export oriented entities complies with Philippine regulations.

Starting 1 June 2020, pursuant to the GCQ imposed by the Philippine Government and the Omnibus Guidelines, office services are permitted to resume anywhere between 50% up to full operational capacity in areas under GCQ, without prejudice to work-from-home and other alternative work arrangements. Industries engaged in the “repair and maintenance” are allowed to operate anywhere between 50% to full capacity in areas under GCQ. All public and private construction projects are allowed under GCQ, but with strict compliance to the issued safety guidelines.

Thus, we have fully resumed operations for our office work, subject to work-home-arrangement for certain employees, in compliance with existing regulations in areas under GCQ, and resumed operations at close to full capacity for our on-site work which involves the repair, maintenance and installation of cleanroom equipment for our customers in ongoing projects in areas under GCQ, subject to compliance with regulations and issued safety guidelines.

The above lockdown measures had not only affected our business operations, but also that of our customers such that our ongoing projects with them have been delayed (as elaborated below).

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(b) Our projects

(1) In the PRC

As at the Latest Practicable Date, we had four ongoing projects carried forward from 31 March 2020 (with contract value over RMB5.0 million each) and six projects (with contract value over RMB5.0 million) which commenced after 1 April 2020 in the PRC. Among these 10 ongoing projects, as at the Latest Practicable Date, one project was for a semiconductor product manufacturing facility in Xuzhou, the PRC, with a contract sum of RMB11.99 million, which had not been affected by the outbreak of COVID-19 as it was substantially completed in January 2020. We also had two projects (with contract value over RMB5.0 million) which will commence in the PRC, details of which has been set out under “— Our cleanroom project backlog — New Projects (each with contract value over RMB5.0 million) to be commenced after 31 March 2020 and up to the Latest Practicable Date” in this section. To the best of our Directors’ knowledge, these projects are not affected by the outbreak of COVID-19, and the commencement and completion dates are on track.

As of the Latest Practicable Date, the other seven of such contracts have experienced delays due to the outbreak of COVID-19, and we set out the impact of the outbreak of COVID-19 as below:

Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Semiconductor product manufacturing facility in Shanghai, the PRC	8.65	Resumption of work was delayed by one month from mid-February 2020 to mid-March 2020 due to lockdown measures and compulsory quarantine of our workers for two weeks.	One month (resumption) 4.5 months (completion)	We completed the major works in September 2020 and is currently heading additional minor touch-up work and variation orders. Our Directors believe that the risk of material delay to the completion is low as the major work has been completed.

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Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Monocrystalline silicon material manufacturing facility in Inner Mongolia, the PRC	28.86	Resumption of work was delayed by five weeks from early February to mid-March 2020 due to lockdown measures and compulsory quarantine of our workers for two weeks.	Five weeks (resumption)	Project has resumed. Our Directors expect the completion of our cleanroom portion would not be delayed, and is expected to be completed in December 2020. Our Directors believe that the risk of material delay to the completion is low as all major materials have been delivered on site before Lunar New Year Holiday.
Semiconductor facility in Beijing, the PRC	6.89	While our workers were able to continue working on the project over Lunar New Year Holiday and lockdown period as they were stationed on the project site, the completion of our cleanroom portion was affected as other subcontractors on this facility were unable to enter the project site due to lockdown measures whose construction were crucial for our installation and completion.	3.5 months	We completed our cleanroom portion, and we are pending final approval from our customer.

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Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Semiconductor product manufacturing facility in Shanghai, the PRC	5.31	Resumption of work was delayed by one month from mid-February 2020 to mid-March 2020 due to lockdown measures and compulsory quarantine of our workers for two weeks.	One month (resumption) Two months (completion)	Project has resumed. While we have completed 80% of our cleanroom portion, the completion of the remainder 20% is expected to delay by two months from July 2020 to September 2020, due to design change by the facility owner. Our Directors believe the risk of material delay to the completion is low as the delay to the completion schedule is due to design change of the owner instead of delay due to the outbreak of COVID-19.
Semiconductor product manufacturing facility in Beijing, the PRC	5.28	Commencement of work was delayed by 1.5 months to May 2020 due to delay in the completion of the previous phase of the facility as well as control policy implemented by the authorities in Beijing.	1.5 months (commencement) three months (completion)	Project is in progress. Our Group has already completed major works and is currently handling additional minor touch-up work, and as a result, our Directors expect the completion will be delayed from July 2020 to in or around October 2020. Our Directors believe that the risk of material delay to the completion is low as the major works has been completed.

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Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Semiconductor product manufacturing facility in Wuhan, the PRC	10.35	Commencement of work was delayed by two months to mid-May 2020 due to lockdown measures of the city of Wuhan.	Two months (commencement) Two months (completion)	Project is in progress. Our Directors expect the completion will be delayed from September 2020 to November 2020. Our Directors believe that the risk of material delay to the completion is low as the required materials and manpower have been delivered on-site and they foresee there would be no further delay to the completion schedule.
Testing and assembly facility in Chengdu, the PRC	13.04	Commencement of work was delayed from mid-March 2020 to June 2020.	2.5 months (commencement) four months (completion)	Project commenced in early June 2020. Our Directors expect the completion of our cleanroom portion would be delayed from late August 2020 to December 2020. Our Directors believe that the risk of material delay to the completion is low as the required materials and manpower have been delivered on-site and they foresee there would be no further delay to the completion schedule.

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The ongoing projects as mentioned above experienced delays in the range of five weeks to 6.5 months due to lockdown measures implemented by the authorities to curb the outbreak of COVID-19. This was caused by travel restrictions and compulsory self-quarantine of our staff for two weeks after they travelled cross-provinces to provide on-site quality assurance and supervision support to our customers, and we were only able to resume our work afterwards such that our work schedule have been pushed back accordingly. In particular, for our project concerning the testing and assembly facility in Chengdu, the PRC, its overall schedule was delayed as the civil structure construction was delayed by certain change in design as well as the outbreak of COVID-19, which in turn pushed back the commencement date of our cleanroom portion by approximately 2.5 months, and the overall completion by approximately four months. Our Directors expect it would be completed by December 2020. However, all projects had commenced and are on track towards completion.

2) *In Southeast Asia*

As at the Latest Practicable Date, we had two projects (with contract value over RMB5.0 million), which carried forward from 31 March 2020 in Southeast Asia, and we set out the impact of the outbreak of COVID-19 on these projects below:

Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Semiconductor product manufacturing facility in Kulim, Malaysia	28.66	Resumption of work has been delayed by 5 weeks from late March to early May due to the MCO from 18 March 2020 and CMCO from 1 May 2020.	Five weeks	Project had resumed in early May 2020 after we resumed operation in compliance with the regulations in Malaysia. The work has been substantially completed by July 2020, however we may receive additional variation orders from our customer. Our Directors believe that the risk of material delay to the completion is low as all work commenced in early May 2020 and had been on schedule.

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Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Data centre facility project in Singapore	42.6	Production is delayed by two months due to lockdown measures in response to COVID-19, and production started in mid-July 2020. Our Directors estimate such delay will not impact our targeted completion by June 2021. We received the procured raw materials on schedule.	Two months	Despite the delay in commencement of production, our Directors expect completion to be on schedule, which is expected to be in June 2021. Our Directors believe that the risk of material delay to the completion is low and our customer has not made any official announcement as to change in project schedule as at the Latest Practicable Date.

As at the Latest Practicable Date, we had two equipment contracts (with contract value over RMB100,000) which are located in the Philippines that experienced delay due to the outbreak of COVID-19, and we set out the impact of the outbreak of COVID-19 on these contracts below:

Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Semiconductor manufacturing facility in Paranaque-National Capital Region, the Philippines	1.4	The installation progress was slowed down due to the preventive measures imposed by the end customer to minimise infection of COVID-19.	3 months	Installation for this contract is ongoing. Our Director expect completion would take place by end of November 2020, and the risk of material delay is low as all the materials have been delivered to site. ^(Note)

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Facility and location	Contract value (RMB million)	Impact of outbreak of COVID-19 as at the Latest Practicable Date	Duration of delay (if any)	Latest status as at the Latest Practicable Date
Semiconductor manufacturing facility in Laguna National Capital Region, the Philippines	1.4	The contract was delayed as (i) the materials ordered was delayed due to shipment arrangement; and (ii) the installation progress on site was limited to the preventive measures imposed by the end customer to minimise infection of COVID-19.	3 months	Contract had resumed in mid-June 2020 after the lockdown measures in the Philippines was relaxed. Our Directors expect completion would take place in or around October 2020, and the risk of material delay is low as all the materials have been delivered to site. ^(Note)

Note:

Although the materials have been delivered to the site, the customer has yet to return the signed delivery note due to the delay in construction progress. Therefore, the revenue recognition has been delayed accordingly.

These contracts have resumed and we would cooperate with our clients to speed up with our progress to make up for the lost time due to the lockdown measures. To cope with the production requirement from the delayed projects and contracts as specified above, as well as to supply for incoming projects and contracts that we have tendered for or have been awarded with, we would optimise our production schedules to optimise our output to fulfil the requirements of various projects and contracts accordingly.

(3) Overall

Overall, our projects and contracts were subject to different degree of delays due to delay in resumption of business operations, lockdown measures and restrictions on inter-provincial transportation. However, none of our projects and contracts have been terminated or aborted, nor have any of our customers expressed an intention to terminate or abort our projects and contracts, as a result of the outbreak of COVID-19. We have discussed with our customers the delays on our projects and contracts and, taking into account the outbreak of COVID-19 and based on the assumption there would be no other unforeseeable intervening events which would further interrupt completion, we have reached mutual agreement with our customers on the completion schedules, which have been disclosed under “(b) Our projects” above. Further, even if there were further delay due to more stringent government policies due to worsened outbreak of COVID-19, based on our communication with our customers, none of them have indicated they would penalize us for any such delay. We are also resuming our business operations to the extent permissible under the applicable government regulations, and have been in the progress of completing our ongoing projects and contracts. As such, based on the foregoing, our Directors are confident that we can complete the ongoing projects based on the schedules as agreed with the customers from time to time. Based on the latest information available to the Directors as at the Latest Practicable Date, the risk of us not being able to complete these projects is minimal. Based on the due diligence performed, as at the Latest Practicable Date, nothing has come to the Sole Sponsor’s attention indicating that the ongoing projects listed in the paragraph headed “(b) Our projects” in this section which had already commenced but yet to be substantially completed before the COVID-19 outbreak would be aborted, or the Group would be unable to complete these projects based on the schedule as mutually agreed between the Group and its customers from time to time according to prevailing market conditions and latest project development. Yet, due to the delays to our projects and contracts as elaborated above, we experienced delay with recognition of our revenue due to delay in completion of our projects and contracts of around one to two months, which had resulted in negative impact on our cash flow. In particular, in the PRC, due to the extended Lunar New Year Holiday, the lockdown and quarantine measures, many of our staff and subcontractors were unable to work on the project sites since around mid-January 2020 and until around mid-March 2020, which severely affected our financial results during this period. Financial impacts on our Group as a result of the outbreak of COVID-19 are described in more details under the paragraph head “(g) Financial impact” below in this section. To our best knowledge and belief, it is the intention of our customers and parties to the facility projects as a whole to resume normal business operations and catch up on the progress of the projects as soon as possible after the lockdowns and restrictions are lifted.

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(c) Our business relationships with our customers

We have consulted our major customers regarding the impact of the COVID-19 outbreak. We understand that their operations are subject to the development of the outbreak situation and measures announced by the governments where these projects situate, including the suspension of business operations which led to delays of their projects and contracts for which we supply cleanroom facility. We further understand that, as at the Latest Practicable Date, based on the best knowledge of our Directors, (i) our major customers in the PRC have fully resumed their business operations; (ii) all of our major customers in Malaysia have resumed their business operations; (iii) our more major customers based in Singapore have resumed work since 2 June 2020 after the Circuit Breaker Measures imposed by the Singapore Government was lifted; and (iv) seven of our 10 major customers/end-users in the Philippines are permitted to resume full operations under the GCQ currently imposed by the Philippine Government, subject to regulations and guidelines under GCQ. We also communicated with them regarding the severity of the outbreak of COVID-19 and the potential impact it has on our business operations, in particular our ability to fulfil our obligations under projects or contracts with them. As at the Latest Practicable Date, to our Directors' best knowledge, none of our affected customers have indicated to us that they will penalize us for such delay. We will continue to closely monitor the situation and development of the outbreak of COVID-19, and cooperate with our customers closely to catch up with any delays in the project schedule. We expect to implement measures to catch up on our progress and the delayed project schedule, such as extending over-time work for our workers in our factories and increasing the operation time of our machineries. As such, our Directors believe that our business relationships with our major customers will not be substantially affected.

(d) Our business resumption and staff

Our PRC subsidiaries operate within the Park, and resumption of enterprises in the Park shall be filed in accordance with the resumption plan of the Park. Enterprise applying for resumption of production is required by the Park to provide certain filing materials including an information form of returning staff, written commitment for resumption, epidemic prevention and control plan, and the Park will then review the materials and inspect the situation of the enterprise on the spot, and thereafter will issue a stamped "Resumption Record Form" to the enterprise as the necessary condition for resumption of production. Moreover, such personnel who resume to work shall be consistent with the personnel recorded in the submitted filing materials. As confirmed by our PRC Legal Advisers, Channel Systems (Shanghai) has filed its resumption of production to the Park and has obtained a stamped Resumption Record Form for resumption of business since 12 February 2020, which is in compliance with the resumption requirement of the Park. Further, per our discussion with the Park and per their instructions, as Channel CR Material is a subsidiary of Channel Systems (Shanghai), and no separate filing is required, Channel CR Material did not file for resumption of production. Accordingly, both of our PRC subsidiaries resumed business operations on 12 February 2020, in compliance with the government's requirement of extending the Lunar New Year Holiday. As at 14 February 2020, seven of our junior level employees, representing approximately 12% of our total 59 employees in our PRC operations, had informed our Group that they had difficulties in returning to office to commence work due to lockdown measures imposed on Jiangxi, Anhui and Henan provinces. Their respective roles were temporarily assumed by other employees. Subsequently, by 25

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February 2020, all of the abovementioned employees had returned to Shanghai and were subject to a 14-day quarantine. On 16 March 2020, they all reported back to work. As of the Latest Practicable Date, all of our staff in the PRC have resumed work. Until the travel restrictions were lifted in May 2020, our workers who are required to travel to project sites in other provinces to provide on-site quality assurance and supervision support, might be subject to self-quarantine for 14 days before they could discharge their business duties based on local epidemic prevention policies.

After business resumption, our PRC subsidiaries have to comply with the Park's epidemic prevention requirements, which include (i) daily inspections on the resumed enterprises, including whether all the employees wear masks, checking the records of temperature measurement, and checking whether the actual resumed personnel are the registered resumed personnel, etc.; and (ii) requiring enterprise to report in time if there are any personnel adjustments, which the Park would simultaneously report to its upper level administrative authorities after receiving any such updates. Should the Park discover any non-compliance, it will liaise with the person-in-charge of the enterprise and require the enterprise to rectify the non-compliance before it becomes material. A written rectification notice will be issued to the enterprise should there be material non-compliance requesting it to halt production and rectify the non-compliance immediately. As confirmed by the Directors, as of the Latest Practicable Date, with the improvement of the epidemic situation in the mainland China, the Park no longer enforces special epidemic prevention measures and they had not received any such verbal or written request for rectification of non-compliance or suspension of production since its resumption on 12 February 2020. Base on the above, our PRC Legal Advisers confirm the Company was in compliance with the epidemic prevention requirements of the Park.

For our Malaysian operations, we have obtained approval from MITI for CSA Technic on 18 April 2020 to resume business operations and half of the CSA Technic employees have resumed work on 19 April 2020 in compliance with the approval. Similarly, we have also obtained approval from MITI for Channel Systems (Asia) to resume business operations on 27 April 2020 and half of the Channel Systems (Asia) employees have resumed work on 28 April 2020. Thereafter, business operations for Channel Systems (Asia), CSA Technic, Micron (M) and Micron Technology also resumed at full capacity since 4 May 2020.

Our Malaysian operations have implemented all the main requirements of safety measures as stated in the SOP as discussed above. Channel Systems (Asia) and Micron Technology have also been in compliance with the additional SOP imposed on the sector of manufacturing companies by MITI and Ministry of Health of Malaysia. Based on the supporting documents and confirmations from our Directors that were provided to our Malaysian Legal Advisers and to the best of their knowledge, our Malaysian Legal Advisers confirmed that our Malaysian companies have complied with the SOP and measures imposed by the Malaysian government in resumption of business operations.

For our Philippines operations, in compliance with the Omnibus Guidelines with Amendments as of 3 June 2020 which allows office services to resume anywhere between 50% up to full operational capacity in areas under GCQ, without prejudice to work-from-home and other alternative work arrangements, we have fully resumed operations for our office work.

Furthermore, under the Omnibus Guidelines, industries engaged in the "repair and maintenance" are allowed to operate anywhere between 50% to full capacity in areas under

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GCQ. Likewise, all public and private construction projects are allowed under GCQ, but with strict compliance to the issued safety guidelines. Thus, starting 1 June 2020, we have resumed operations at close to full capacity for our on-site work which involves the repair, maintenance and installation of cleanroom equipment for our customers in ongoing projects in areas under GCQ, subject to compliance with regulations and issued safety guidelines.

We will closely monitor the situation of our employees to understand whether they expect to encounter any difficulty to report to our Philippines office once we re-open our offices at the end of the lockdown periods.

To the best knowledge of our Directors after making reasonable enquiries, as at the Latest Practicable Date, none of our senior employees, including our Directors and senior management, have been confirmed to be infected by COVID-19.

(e) Our sales and marketing activities

As at Latest Practicable Date, we submitted one tender in the PRC, and to the best of our Directors' knowledge, such tender had not been affected by the outbreak of COVID-19. We submitted five tenders for Southeast Asia wall and ceiling contracts, and to the best of our Directors' knowledge, their progress had not been affected by the outbreak of COVID-19. For the eight Southeast Asia equipment contracts we submitted tenders for, they experienced delays in the range of one month to three months, and to the best of our Directors' knowledge, such delays were mainly caused by the lockdown measures which have disrupted the business operations of our customers and the overall progress of the facility construction, to which our cleanroom system forms part of.

As at the Latest Practicable Date, to the best knowledge of our Directors, we are not aware of any potential projects which we have submitted tender or quotation for is being aborted as a result of the outbreak of COVID-19. As at the Latest Practicable Date, our Group has identified, and anticipate to continue to tender for, the potential projects as specified under “— Our Strategies — Strategies for the PRC Market” and “— Strategies for the Southeast Asian Market” in this section.

Our sales and marketing activities were also impacted. As a result of the travel restrictions and lockdown policies imposed by various governments as well as recommendation to minimise social activities to reduce transmission of COVID-19, we have not been able to conduct sales and marketing activities such as face-to-face client meetings and site visits to get in touch with our potential customers and explore new business opportunities, and instead we conduct marketing activities through alternative means such as phone calls and emails, which our Directors believe are relatively less effective than meetings and visits directly with our potential customers.

(f) Our supply chain

Our major suppliers and subcontractors are located in the PRC and Malaysia. We have communicated with our major suppliers and subcontractors regarding the outbreak of COVID-19 to understand its impact on their business operations. For our suppliers in the PRC, to the best of our Directors' knowledge, our major suppliers in the PRC have resumed full operations. While

they do not expect there to be material price increase due to the outbreak of COVID-19 or transportation restrictions, the delivery lead time is expected to be lengthened and the delivery schedule may be delayed due to the abovementioned lockdown measures, road closure and additional time required for obtaining inter-provincial travel permits in the PRC. For our major suppliers in Malaysia from whom we source mainly aluminium extrusion, to the best of our Directors' knowledge, most of them have resumed full operations since 4 May 2020 in compliance with the CMCO announced on 1 May 2020. While their business operations and ability to supply to us are likely to be affected by the Restriction of Movement Order, our ongoing production process do not require substantial quantity of aluminium extrusion and our inventory level is sufficient to meet our immediate needs. To minimise the impact that such lengthened lead time may have on our production plan, we place orders with our suppliers earlier. We also intend to increase the inventory level of standard materials used in our products, such as aluminium and steel coil, to ensure we maintain sufficient level of inventory for our operation in the event our suppliers delay or even fail to supply raw materials to us.

We subcontract installation services to our subcontractors. We understand all of our subcontractors in the PRC have resumed full operations, while most of our subcontractors in Malaysia have resumed full operations since 4 May 2020 in compliance with the CMCO announced on 1 May 2020. However, as a result of the lockdown measures, they are experiencing difficulty in travelling to perform installation services and, as a result, progress of these projects would be interrupted. Going forward, our Group will identify and seek to engage local manpower close to the worksites to provide on-site works that require less skills, so that our contract progress will be less affected by lockdown measures. However, for more complicated installations, we may not be able to identify alternative subcontractors. The overall impact of the outbreak of COVID-19 on our projects are described in more details under the paragraph headed "(b) Our projects" in this section above. Nonetheless, we have communicated with our customers to whom such installation services are supplied to, and as at the Latest Practicable Date, to our Directors' best knowledge, none of our affected customers have indicated to us that they will penalize us for such delay.

(g) Our hygiene and preventive measure

We have established a business continuity team for monitoring and implementing the hygiene and preventive measures in order to limit the spread of COVID-19. Our Group has adopted hygiene and preventive measures in response to the outbreak of COVID-19 as follows.

To monitor the health condition of our employees, we take the body temperature of our staff twice a day, before they arrive and depart from our office and production facility premises. Employees who display symptoms of respiratory system diseases are required to report to their senior supervisor and visit a doctor immediately. We implement mandatory hand sanitisation for employees and visitors upon entry to our premises, and provide personal protective items such as surgical masks and sanitisers to our employees.

We strongly recommend our staff who are planning business trips to avoid countries and areas with high alert of COVID-19 cases. Travels to such areas due to personal reasons are also strongly discouraged. Employees that recently returned from these areas are subject to compulsory self-quarantine for 14 days before returning to work. In addition, visitors with recent travel history to such areas are also not allowed to enter our premises.

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We encourage our staff to reduce face-to-face meetings and visits with our customers, suppliers and subcontractors and instead conduct communication through telephone calls, emails and other communication platforms. We also advise them to avoid going to crowded places and maintain social distancing to avoid transmission of COVID-19, and recommend them to maintain good hygiene practices such as washing their hands regularly with soap and water, avoid touching their face with their hands, etc.

In addition to the above, in response to the varying severity of outbreak and risk of transmission of COVID-19, we implemented different measures in our business operations in the PRC, Malaysia and Philippines as follows.

(i) Measures in the PRC

We require our employees to wear surgical masks on our premises at all times. We also sanitise our office premises on a daily basis to ensure hygiene and safety for our employees. We also implement the epidemic preventive requirements of the Park, details of which is set out under “(d) Our business resumption and staff” above.

(ii) Measures in Malaysia and the Philippines

Our Malaysian operations have implemented the requirements of safety and sanitary measures as stated in the SOP and the additional SOP imposed on manufacturing companies. As for our Philippines operations, as a precautionary measure, prior to the compulsory suspension of business, we encourage our staff to wear surgical masks on our premises. Office sanitisation is carried out on a weekly basis to keep our workplace clean and safe. After our resumption of business, we have also implemented measures provided in the ‘DTI And DOLE Interim Guidelines On Workplace Prevention And Control Of COVID-19’, which include (i) wearing surgical masks, (ii) mandatory handwashing and sanitizing, and (iii) observing social distancing, to minimise the risk of COVID-19 infection within our workplace.

The additional costs for implementing the abovementioned enhanced hygiene and preventive measures were approximately RMB0.2 million for the half year period from February 2020 to July 2020. Our Directors consider that the additional costs associated with the enhanced measures would have no significant impact on our Group’s financial position.

Although our Directors consider that our currently adopted measures are adequate and sufficient to counteract the potential impacts of the outbreak of COVID-19 on our business and operation, our Directors will continue to closely monitor whether additional pre-cautionary measures are necessary based on the situation of the outbreak of COVID-19. However, there is no assurance that the outbreak of COVID-19 and the impacts thereof will not continue. If such outbreak cannot be contained and become worse, we are required to take out necessary additional measures to minimise the potential impact on our business and operations. For example, we may need to refrain from tendering new contracts located in any city, country or area which may be subject to quarantines imposed by the relevant government and authorities from time to time. While none of our ongoing projects and contracts had been terminated or aborted as a result of the outbreak of COVID-19, there is no assurance that there will not be any other government measures in the future and adopting such measures may restrict us from undertaking contracts which may have better profitability and that our financial performance may be affected.

(h) Our contingency plan

In the unlikely event that we are forced to completely suspend our business operations due to the outbreak of COVID-19 whether due to government policy or any other reasons beyond our control. Assuming that there is no Listing, we estimate our financial resources as at 30 June 2020 based on unaudited management account and after deducting the listing expenses before the Listing but not those upon Listing, would have been reduced to approximately RMB27.8 million, which could be sufficient to support our Company for around four months. By then, our remaining cash would be less than and not sufficient to pay our trade payables as of 30 June 2020 of approximately RMB20.6 million (assuming that we are required to pay in full our trade payables on or about 142 days from 30 June 2020, representing the trade payables turnover days for the six months ended 30 June 2020). In another scenario, assuming that the Listing takes place and we are able to increase our working capital by (i) the working capital portion (being approximately 6.9%) of the net proceeds from the Global Offering assuming an Offer Price of HK\$0.36 (being the low-end of the indicative Offer Price range); and (ii) the portion of listing expenses already paid with the internal resources of our Company, but which will be paid using gross proceeds from the Global Offering instead, our available financial resources would have been increased to approximately RMB56.5 million, which would be sufficient to pay our trade payables as of 30 June 2020 of approximately RMB20.6 million in full and continue to pay our necessary monthly expenses until we receive cash settlement from the trade receivables and contract assets as of 30 June 2020 of approximately RMB76.3 million on or about 279 days from 30 June 2020 (assuming that the trade receivables and contract assets would be received in full based on their turnover days for the six months ended 30 June 2020 of approximately 279 days). In the latter scenario, we would have adequate financial resources to support our company for around 60 months. In the two scenarios above, we have assumed: (i) we will not generate any income due to the suspension of business; (ii) monthly fixed costs such as interests expenses, staff costs and rental expenses will continue to be paid each month; (iii) delay of our expansion plan under such condition; (iv) there will be no further internal or external financing from Shareholders or financial institutions; (v) other than the dividend paid in July 2020 of RMB15.0 million, no further dividend will be declared and paid under such situation; and (vi) repayment of bank borrowings will be made for the principal and related interests according to the repayment schedule.

The abovementioned extreme situation may or may not occur and the abovementioned analysis is for illustrative purpose only. Our Directors currently assess that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development, therefore it is a possibility that such impact to our Group may be out of our Director's control and beyond our estimation and assessment.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the Capitalisation Issue and the Global Offering (assuming that the Share Options have not been exercised), Mr. Ng, Mr. Chia, Mr. Law, Mr. Lim, Chang Chin Sia, Ng Boon Hock, Ms. Yap, Mr. Chin, Loh Wei Loon and Phang Chee Kin will together hold approximately 54.2% of the voting rights of our Company and will be our Controlling Shareholders. Each of our Controlling Shareholders has executed the AIC Confirmation which stated and confirmed, among other things, that they have been acting in concert with each other for the entire duration when all of them were/are contemporaneously either the legal and/or beneficial owners of shares in each of our Group companies, and shall continue to centralise the ultimate control and right to make decisions with respect to their interest in our businesses. See “Directors and Senior Management” for further details of the background information of Mr. Ng, Mr. Law, Mr. Lim, Ms. Yap, Mr. Chin and Loh Wei Loon.

Apart from our businesses related to the design and manufacture of cleanroom wall and ceiling systems and cleanroom equipment, our Controlling Shareholders are currently operating other businesses (“**Excluded Businesses**”) such as (a) mechanical and electrical systems main contractor (including air conditioning) for high-tech factories including but not limited to cleanroom (“**Construction and Engineering Business**”); (b) manufacturing, trading and installation of air-conditioning equipment (“**Air Conditioning Business**”); and (c) mechanical and engineering services for renewable energy systems (“**Solar Panel Business**”) through a group of companies controlled by them and these companies will not form part of our Group after Listing.

The table below sets forth the details of each of the companies operating the Excluded Businesses which our Controlling Shareholders are interested in as at the Latest Practicable Date and are excluded from our Group (“the “**Excluded Group**”):

Name	Place of incorporation	Shareholders	Directors	Principal business
Sum System	Malaysia	1. Mr. Ng (45.3%) 2. Mr. Chin (24.5%) 3. Mr. Chia (24.5%) 4. Ms. Yap (2.3%) 5. Mr. Law (2.3%) 6. Mr. Lim (1.1%)	Mr. Ng and Mr. Chin	Solar Panel Business
Sum Technic	Malaysia	1. Mr. Ng (51.0%) 2. Mr. Chin (21.0%) 3. Independent Third Party (20.0%) 4. Mr. Law (5.0%) 5. Ms. Yap (3.0%)	Mr. Ng, Mr. Chin and one Independent Third Party	Construction and Engineering Business

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Name	Place of incorporation	Shareholders	Directors	Principal business
Sumsys Solution Phils., Inc. (“Sumsys Solution”)	Philippines	1. Independent Third party (59.98%) 2. Mr. Ng (17.50%) 3. Mr. Chin (12.50%) 4. Mr. Chia (10.00%) 5. Independent Third Party (0.01%) 6. Independent Third Party (0.01%)	Mr. Ng, Mr. Chin and three Independent Third Parties	Air Conditioning Business
Micronaire Global Sdn Bhd (“Micronaire”)	Malaysia	1. Mr. Ng (23.0%) 2. Independent Third Party (20.0%) 3. Independent Third Party (15.0%) 4. Mr. Chin (15.0%) 5. Mr. Chia (7.0%) 6. Mr. Law (7.0%) 7. Independent Third Party (5.0%) 8. Ms. Yap (5.0%) 9. Mr. Lim (3.0%)	Mr. Ng, Mr. Chin and one Independent Third Party	Air Conditioning Business

DELINEATION OF BUSINESS

The operations of our Group are independent of and separate from the Excluded Group. Our Directors are of the view that there is a clear delineation between the businesses of the Excluded Group and our businesses. The businesses of the Excluded Group are not injected into our Group as our Controlling Shareholders are of the view that such businesses, which are neither ancillary nor incidental to our core businesses. Further, the businesses of the Excluded Group neither form part of our core businesses nor are in line with our strategy to strengthen our market position in the cleanroom industry.

Our Group is principally engaged in the design and manufacture of cleanroom wall and ceiling systems and cleanroom equipment, whereas the Excluded Group is principally engaged in the Excluded Businesses. Our Directors do not expect there to be any overlap or competition of the businesses of the Excluded Group and our Group’s business after the Listing due to the following reasons:

Different business focus. While the Excluded Group is engaged in the Excluded Business, we do not engage, and have no intention of engaging, in these Excluded Businesses, which are neither incidental nor ancillary to our business. In contrast, our Group designs, manufactures and installs cleanroom wall and ceiling systems and cleanroom equipment. We out-sourced installation, construction and engineering work, which were part of the business carried out by the Excluded Group to third party subcontractors.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Where we are awarded contracts that require us to provide project/construction management services, we engage third parties, such as Sum Technic, to provide such services to us. In 2019, we were awarded a contract that required us to provide, as part of the contract package, project/construction management services (“**Relevant Project**”). The Directors confirm that, notwithstanding that we have taken up the Relevant Project, we do not intend to engage in provision of project/construction management services in our ordinary course of business. See “Continuing Connected Transactions — Project Management Service Contracts” section for further details.

Different business models. While a member of the Excluded Group provides certain construction and engineering service to cleanroom projects, their business model is distinguishable from that of our Group. The Construction and Engineering Business is focused on provision of total design and build solution for industrial factories as well as cleanroom facilities, and offers, among others, design and build of mechanical and electrical systems. It takes up the role of a main contractor to supervise and manage mechanical and electrical engineering, interior structural framework and/or equipment supply and installation works of industrial factory as well as cleanroom construction projects. The Air Conditioning Business involves air conditioning systems that are for general air conditioning proposes instead of cleanroom air filtration purposes such as the FFUs offered by our Group. On the other hand, our Group engages in the design, manufacture and installation of cleanroom wall and ceiling systems, as well as cleanroom equipment, and does not carry out any works in relation to the Excluded Businesses as they require completely different industry knowledge and expertise. As such, our Directors consider that there is a clear delineation between the roles of (i) our Group, which focuses on the design, manufacture and installation of cleanroom wall and ceiling systems and cleanroom equipment, and (ii) the Excluded Business, which focuses on construction and engineering and supply of air conditioning units.

Different products and services. The products and services of the Excluded Group are entirely distinguishable from ours. Sum Technic, which engages in Construction and Engineering Business, acts as a main contractor that provides total mechanical and electrical systems, including air-conditioning equipment to its customers. Products provided under Solar Panel Business are solar panel systems, while that provided under Air Conditioning Business is air conditioning equipment. On the contrary, we provide cleanroom wall and ceiling systems and cleanroom equipment together with installation services.

In view of the foregoing and given the different nature of businesses between our Group and the Excluded Group, our Directors are of the view that the businesses of the Excluded Group and our business are not in competition.

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, there had been no material non-compliance on the applicable laws and regulations committed by the Excluded Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Group can function, operate and carry on our business independently from and does not place undue reliance on our Controlling Shareholders based on the following reasons.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

No competition and clear delineation of business

Our Directors, including our independent non-executive Directors, are of the view that to the best of their knowledge, belief and information, none of our Controlling Shareholders, our Directors and none of their respective close associates have interests in businesses which compete, or are likely to compete, either directly or indirectly, with our business.

Independence of management and directorship

Our Company has a Board and members of senior management that function independently from our Controlling Shareholders and their respective associates. Our Board is comprised of five executive Directors and three independent non-executive Directors. Our senior management consists of four members. On the basis of the following reasons, our Directors believe that our Directors and members of our senior management are able to manage our business independently from our Controlling Shareholders:

- (i) with three independent non-executive Directors out of a total of eight Directors in our Board, which fulfils the minimum requirement under the Listing Rules, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders;
- (ii) all members of our senior management are full-time employees of our Group and have, for the entire or substantially the entire Track Record Period, undertaken senior management supervisory responsibilities in our business. The responsibilities of our senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of our Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;
- (iii) each of our Directors is aware of his or her fiduciary duties as a Director of our Company, which require, among other things, that he or she acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his or her duties as a Director and his or her personal interests to affect the performance of his or her duties as a Director;
- (iv) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between us and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum;
- (v) connected transactions between our Company and companies controlled by our Controlling Shareholders are subject to the Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval (where applicable);
- (vi) all of the businesses that are related to cleanroom wall and ceiling systems and cleanroom equipment in the PRC and Malaysia held by our Controlling Shareholders have been consolidated into our Group as part of our Reorganisation. Therefore, there is no competition that would adversely affect the management independence of our Group; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (vii) a number of corporate governance measures are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. See the paragraph headed “Corporate governance measures for resolving actual and/or potential conflicts of interests” in this section.

Operational independence

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders and other companies controlled by our Controlling Shareholders:

- (i) during the Track Record Period, we had been engaged as a supplier to Sum Technic, one of our top 5 customers for the FY2018, for the provision of ceiling and wall systems for their projects. See “Business — Our Customers — Top Five Customers” for further details. Sales to Sum Technic in FY2018 and FY2019 only accounted for less than 5.0% of our revenue for the respective financial periods, and there was no sales to Sum Technic for FY2017. While we expected to continue to engage in sales to Sum Group upon Listing, the annual caps were set at no more than RMB15.0 million, which was approximately 7.3% of our total revenue for FY2019. Accordingly, Sum Technic is merely among the many customers that we conduct business with. Our Directors are of the view that we are not reliant on Sum Technic as we were also engaged by other main contractors during the Track Record Period to undertake various cleanroom projects, who are Independent Third Parties. We also sold metal casing parts to Micronaire in FY2019 amounted to approximately RMB93,000, which were immaterial compared to our revenue for FY2019.

Separately, we engaged Sum System to design, build and install the solar panel system at our Malaysia Factory with purchase amount of RMB652,000 during FY2017. The purchase was not related to the business operation of our Group but was an investment made by our Group for green energy. Accordingly, our Directors are of the view that there is no adverse impact on our operational independence;

In May and July 2019, we placed a number of purchase orders to Sum Technic for its project/construction management services to fulfil our contractual obligation for the Relevant Project (as defined in the “Continuing Connected Transactions” section), where we were requested by the customer to provide such management service as a package. Subsequent to the completion of the Relevant Project, we continued to engage Sum Technic for its management services as we continue to undertake variation works for the Relevant Project. Phase 2 of the Relevant Project is expected to commence in 2021 and if we get the contract which we believe we have a reasonable chance, we will continue to engage Sum Technic for its project management services. The annual caps for the engagement fee payable by us to Sum Technic are set at no more than RM0.7 million and RM2.0 million (i.e. RMB1.2 million and RMB3.3 million) for the financial years ending 31 December 2020 and 2021, respectively. See “Continuing Connected Transactions — Project Management Service Contracts” for further details.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) we are not reliant on trademarks owned by our Controlling Shareholders, or other companies controlled by our Controlling Shareholders;
- (iii) we are the holder of all relevant licences material to the operation of our business and have sufficient capital, equipment and employees to operate our business independently;
- (iv) we have our own administrative and corporate governance infrastructure (including its own accounting, legal and human resources departments);
- (v) we have established a set of internal control procedures to facilitate the effective operation of our business;
- (vi) we have an independent management team to handle our day-to-day operations;
- (vii) all properties used as our office premises or warehouses are owned by us or leased from Independent Third Parties by us; and
- (viii) we do not rely on our Controlling Shareholders for access to suppliers and customers.

Based on the above-mentioned arrangements, our Directors are of the view that we will be able to operate independently from our Controlling Shareholders.

Financial independence

We have our own financial management and accounting systems and the ability to operate independently from our Controlling Shareholders from the financial perspective. We are capable of making financial decisions according to our own business needs. Our Directors also believe that we have sufficient capital, internal resources and credit profile in the case of future external financing needs to support our daily operations independently from our Controlling Shareholders and their respective close associates. Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders and any of their respective associates upon the Listing for the following reasons:

- (i) **Strong financial positions:** We have been financially sound throughout the Track Record Period. See “Financial Information” for further details.
- (ii) **Strong credit position:** Besides having a strong financial position and cash generating operation as mentioned above, based on discussions with relevant lending banks, our Directors confirm that we also have a strong credit position on a stand-alone basis. All the non-trade amounts due to and from our Controlling Shareholders and companies controlled by our Controlling Shareholders, as well as all guarantees, indemnities and other securities provided by us for the benefit of our Controlling Shareholders, and companies controlled by our Controlling Shareholders, or vice versa, will be fully settled or released upon Listing. There will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders in favour of us or vice versa upon the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES FOR RESOLVING ACTUAL AND/OR POTENTIAL CONFLICTS OF INTERESTS

Upon the Listing, our Company will continue to enter into connected transactions with certain companies controlled by our Controlling Shareholders from time to time. Each of our Controlling Shareholders has also undertaken to our Company under the Deed of Non-Competition that he/she shall not, and shall procure that his/her close associates shall not, during the period commencing from on the Listing date until the earlier of (i) the date on which the Shares ceases to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares on the Stock Exchange for any reason); or (ii) the date on which the Controlling Shareholders and his/her close associates, individually or collectively, cease to be entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company or otherwise cease to be controlling shareholders of the Company, own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes, or may compete, with our business. Furthermore, each of Douglas Frederick Bockmiller, Lauren Lindquist Bockmiller, Channel Systems Inc., Pacific Panels Inc., and Peter Wayne Borris has entered into a deed of non-competition with our Company on 3 September 2020 to provide the same undertaking on non-competition (apart from the permission to conduct or engage, or hold or acquire any interest in a company which is conducting or engaging, in any business or company which directly or indirectly competes, or may compete with our business in North America) to our Company. Our Company will further adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

- (i) in preparation for the Listing, our Company has amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, except for certain exceptions permitted under the Listing Rules or the Stock Exchange, a Director shall not vote on any board resolution approving any contract in relation to which he or his close associates has/have a material interest, nor shall such Director be counted in the quorum present at the meeting. Furthermore, a Director who holds directorship and/or senior management positions in the Controlling Shareholders or any of their associates (other than our Company or any member of our Group) shall not vote on any board resolution regarding any transactions proposed to be entered into between any member of our Group and the Controlling Shareholders or any of their associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;
- (ii) we have appointed Ballas Capital Limited as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to Directors' duties and internal controls;
- (iii) our independent non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- (iv) each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (v) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through an annual report, or by way of announcement to the public;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (vi) each of our Controlling Shareholders will make an annual declaration of compliance with the Deed of Non-Competition in the annual reports of our Company;
- (vii) our management structure includes an audit committee, a remuneration committee, and a nomination committee, the terms of reference of each of which will require them to be alert to prospective conflict of interest and to formulate their proposals accordingly; and
- (viii) pursuant to the Code of Corporate Governance Practices in Appendix 14 of the Listing Rules, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our costs.

We are expected to comply with the Code of Corporate Governance Practices in Appendix 14 of the Listing Rules which sets out principles of good corporate governance in relation to, among others, Directors, chief executive, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communication with our Shareholders. We will state in our interim and annual reports whether we have complied with such code, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

Prior to the Listing Date, we have entered into certain transactions with parties who will, upon the Listing, become connected persons of our Company. Following completion of the Listing, these will also be continuing connected transactions of our Company under the Listing Rules. Details of these transactions as well as the waiver granted by the Stock Exchange from strict compliance with the relevant requirements in Chapter 14A of the Listing Rules are set out below.

NON-FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

(i) Framework Sales Agreement

According to the sales of goods agreement between us and Sum Group on 3 September 2020 (“**Framework Sales Agreement**”), we have agreed to sell, and Sum Group has agreed to purchase, cleanroom wall and ceiling systems and cleanroom equipment (including components and parts) (“**Products**”) within the annual caps for aggregate sales amount set out in the paragraphs headed “Annual caps” below. The term for the Framework Sales Agreement is from the date of Listing to 31 December 2022.

Relevant connected person

Mr. Ng, one of our Controlling Shareholders, owns 45.3% of Sum System and 51.0% of Sum Technic. Accordingly, each member of Sum Group is an associate of Mr. Ng and a connected person of our Company under Chapter 14A of the Listing Rules. Sum System is primarily engaged in the Solar Panel Business and Sum Technic is primarily engaged in the Construction Engineering Business, acting as main contractors for high-tech factories but not limited to cleanroom. Both do not engage in the manufacturing and trading of cleanroom wall and ceiling systems and equipment.

Historical sales amount

The aggregate amount of our sales to Sum Technic for FY2017, FY2018, FY2019 and 3M2020 were nil, approximately RMB7.8 million, RMB0.7 million and nil, respectively.

Annual caps

In accordance with the Listing Rules, our Company has set annual caps for the maximum aggregate sales amount from our Group to Sum Group for the financial years ending 31 December 2020, 2021 and 2022 at RMB5 million, RMB13 million, and RMB15 million, respectively.

The abovementioned annual caps are determined taking into account: (i) the historical sales amount to Sum Technic during the Track Record Period, (ii) our production capacity, and (iii) the expected estimated demand of Sum Group, based on potential projects Sum Group has submitted quotations for and identified in the market and has indicated would be subcontracted to the Group.

CONTINUING CONNECTED TRANSACTIONS

We set forth the details of the potential projects Sum Group has submitted quotations for and identified in the market as follows:

Financial year ended 31 December	Potential contracts between Sum Group and the Group	Aggregate contract sum
2020	<ol style="list-style-type: none"> 1. A semiconductor manufacturing facility in Ipoh, Malaysia with an expected contract value of approximately RMB0.4 million. To the best of our Director's knowledge, Sum Group has secured this project to act as the main contractor, and has awarded part of the contract regarding the cleanroom component to the Group and expects to award further items to the Group once approved by the client, which is expected to commence in late 2020. 2. Semiconductor manufacturing company in Seremban, Malaysia with an expected contract value of approximately RMB4.3 million, which is expected to be awarded to the Group in or around October 2020 and commence in late 2020. To the best of our Director's knowledge, (i) Sum Group has submitted tender for this project to act as the main contractor in July 2020, and the tender result is expected to be announced in or around October 2020; (ii) the likelihood for Sum Group to secure such project is potential high as the have previous experience in similar projects, and they have been shortlisted as one of the potential candidates for the project. 	RMB4.7 million
2021	<ol style="list-style-type: none"> 1. Phase 1 of a semiconductor manufacturing facility in Ipoh, Malaysia with an expected contract value of approximately RMB6.5 million, which is expected to be awarded to the Group in early 2021 and commence in early 2021. To the best of our Director's knowledge, (i) Sum Group has submitted the budgetary cost for the cost consultant of this project in February 2020, and expects to submit tender to act as the main contractor in January 2021; (ii) the likelihood for Sum Group to secure such project is high as they have previous experience in similar projects for the same facility owner. 2. A semiconductor manufacturing facility in Calamba, the Philippines with an expected contract value of approximately RMB4.2 million, which is expected to be awarded to the Group in late 2020 and commence in early 2021. To the best of our Director's knowledge, (i) Sum Group has submitted tender for this project to act as the main contractor in June 2020; (ii) the likelihood for Sum Group to secure such project is moderately high as they have already been pre-qualified for technical review. 	RMB10.7 million

CONTINUING CONNECTED TRANSACTIONS

Financial year ended 31 December	Potential contracts between Sum Group and the Group	Aggregate contract sum
2022	<ol style="list-style-type: none">1. Phase 2 of a semiconductor manufacturing facility in Ipoh, Malaysia with an expected contract value of approximately RMB6.5 million, which is expected to be awarded to the Group in late 2021 and commence in early 2022. To the best of our Director's knowledge, (i) Sum Group has submitted the budgetary cost for the cost consultant of this project in February 2020, and expects to submit tender to act as the main contractor in late 2021; (ii) the likelihood for Sum Group to secure such project is high if they are able to secure phase 1 of the same project.2. A semiconductor manufacturing facility in Melaka, Malaysia with an expected contract value of approximately RMB5 million, which is expected to be awarded to the Group in early 2022 and commence in early 2022. To the best of our Director's knowledge, (i) Sum Group targets to submit tender to act as the main contractor in mid-2021; (ii) the likelihood for Sum Group to secure such project is moderately high as they have been pre-qualified to tender for this project.	RMB11.5 million

Our Directors consider that the abovementioned annual caps are reasonably determined pursuant to the Listing Rules.

Pricing basis

The selling price of the goods will be set out in a separate purchase order in respect of each transaction under the Framework Sales Agreement. The selling price for each purchase order shall be determined with reference to, including but not limited to:

- (a) the costs of our Products, including costs of raw materials, labour costs and production equipment depreciation) as calculated by our accounts department;
- (b) the prevailing market price of relevant Products of comparable quality, specifications and quantities and applicable foreign exchange rates (the "**Prevailing Market Terms**") based on market information collected by us from time to time; and
- (c) where applicable, the terms agreed with our Independent Third Party customers for Products of comparable quality, specifications and quantities and applicable foreign exchange rates in recent transactions (the "**Independent Product Pricing Terms**").

Based on the above, we will price our Products with its costs as a benchmark, upon which we will determine the final prices for sale to Sum Group for the respective purchase orders under the Framework Sales Agreement by comparing against the Prevailing Market Terms or Independent Product Pricing Terms, depending on the availability of such information at the

CONTINUING CONNECTED TRANSACTIONS

relevant time. The price and the terms of the purchase order shall be agreed after arm's length negotiation between us and Sum Group based on normal commercial terms, and in any event shall be no less favourable to us than terms offered to Independent Third Parties.

Listing Rules implications

As each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5%, the transactions contemplated under the Framework Sales Agreement will constitute continuing connected transactions exempt from the circular and independent shareholders' approval requirements but subject to the announcement requirement under Chapter 14A of the Listing Rules.

(ii) Project Management Service Contracts

We tendered for a project to supply our cleanroom wall and ceiling systems products, together with project management services as well as installation services, for a new cleanroom facility project in Malaysia of a U.S. semiconductor company ranked within the top 50 companies on the Fortune 500 list ("**Relevant Project**"). The contract value of the Relevant Project was approximately RMB28.7 million. In April 2019, CSA Technic was awarded the contract. The project commenced in July 2019 and has been substantially completed by July 2020. We are currently handling variation works for the Relevant Project. We also expect phase 2 of the Relevant Project ("**Relevant Project Phase 2**") will commence in mid-2021. As we do not provide project management service, to meet our contractual obligations under the variation orders of the Relevant Project and the Relevant Project Phase 2, we have continued to engage Sum Technic to provide project/construction management service for the variation orders of the Relevant Project and intend to engage Sum Technic to manage the Relevant Project Phase 2.

In May and July 2019, we placed a number of purchase orders to Sum Technic for its project /construction management services under the Relevant Project ("**Project Management Service Contracts**"). Pursuant to the Project Management Service Contracts, the total engagement fee payable by us to Sum Technic is RM2.0 million (i.e. approximately RMB3.3 million). Subsequent to the completion of the Relevant Project, we continued to engage Sum Technic for its management services as we continue to undertake variation works for the facility. We also expect to continue to engage Sum Technic for the Relevant Project Phase 2.

Relevant connected person

See the paragraph headed "Framework Sales Agreement — Relevant connected person" in this section.

Historical engagement fee under the Relevant Project

The aggregate amount of engagement fee paid by us to Sum Technic under the Relevant Project for FY2017, FY2018, FY2019 and 3M2020 were nil, nil, RM2.0 million (i.e. RMB3.3 million) and RM0.4 million (i.e. RMB0.7 million), respectively.

CONTINUING CONNECTED TRANSACTIONS

Annual caps

In accordance with the Listing Rules, we have set annual caps for the maximum aggregate engagement fee payable by us to Sum Technic for the financial years ending 31 December 2020 and 2021 at RM0.7 million (i.e. RMB1.2 million) and RM2.0 million (i.e. RMB3.3 million), respectively.

The abovementioned annual caps are determined taking into account (i) the expected amount and project progress of variation work for the Relevant Project based on our experience; and (ii) the total engagement fee payable by us to Sum Technic for project/construction management service for the Relevant Project Phase 2 of RM2.0 million. Our Directors consider that the abovementioned annual caps are reasonably determined pursuant to the Listing Rules.

Listing Rules implications

As each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5%, the transactions contemplated under the Project Management Service Contracts will constitute continuing connected transactions exempt from the circular and independent shareholders' approval requirements but subject to the announcement requirement under Chapter 14A of the Listing Rules.

WAIVER

Application for Waiver

As the non-fully exempt continuing connected transactions have been disclosed in the prospectus, our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be unduly burdensome and add unnecessary administrative costs on our Company. Accordingly, pursuant to Rules 14A.102 and 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement under Rules 14A.35 of the Listing Rules, once our Shares are listed on the Stock Exchange in respect of such non-exempt continuing connected transactions, subject to the aggregate amount of the non-exempt continuing connected transactions for the financial years ending 31 December 2020, 2021 and 2022 not exceeding the relevant annual cap amounts as stated above.

Opinion of our Directors

Our Board has approved the non-fully exempt continuing connected transactions described above. Further, our Directors (including our independent non-executive Directors) have confirmed that (i) the terms of such non-fully exempt continuing connected transactions are fair and reasonable; (ii) such non-fully exempt continuing connected transactions are on normal commercial terms or better and are in the interest of our Group and our Shareholders as a whole; (iii) such non-fully exempt continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of our business; and (iv) the proposed annual caps for the non-fully exempt continuing connected transactions are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

Confirmation from the Sole Sponsor

Having taken into account the factors set out above, the Sole Sponsor is of the view that (i) the terms of the non-fully exempt continuing connected transactions are fair and reasonable; (ii) the non-fully exempt continuing connected transactions are on normal commercial terms or better and are in the interest of our Group and our Shareholders as a whole; (iii) the non-fully exempt continuing connected transactions has been entered into and will be carried out in the ordinary and usual course of our business; and (iv) the proposed annual caps for the non-fully exempt continuing connected transactions are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

Upon Listing, our Board will consist of eight Directors, comprising five executive Directors and three independent non-executive Directors. The functions and duties of our Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of share capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles.

The following table sets out certain information with respect to our Directors and senior management:

Name	Age	Position in our Group	Date of joining our Group	Date of appointment as a Director/ senior management	Main roles and responsibilities
Executive Directors					
Ng Yew Sum	53	Executive Director and Chairman	1 January 1990	11 June 2019	Overseeing the business operation as well as business development and strategy of the Group
Chin Sze Kee	44	Executive Director	15 March 2001	11 June 2019	Overseeing the overall operations in sales and marketing, engineering as well as the manufacturing of cleanroom equipment at our Malaysia operation
Law Eng Hock	44	Executive Director	1 September 2001	11 June 2019	Overseeing the overall operations in sales and marketing, engineering as well as manufacturing of our PRC operation

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position in our Group	Date of joining our Group	Date of appointment as a Director/ senior management	Main roles and responsibilities
Lim Kai Seng	58	Executive Director	21 May 2005	11 June 2019	Overseeing sales and marketing, project operation and research and development of cleanroom wall and ceiling systems at our Malaysia operation
Yap Chui Fan	57	Executive Director	18 September 2006	11 June 2019	Overseeing overall human resources, administration, financial management and accounting functions of the Group

Independent non-executive Directors

Ng Seng Leong	60	Independent non-executive Director	3 September 2020	3 September 2020	Overseeing the management of our Group independently
Martin Giles Manen	65	Independent non-executive Director	3 September 2020	3 September 2020	Overseeing the management of our Group independently
Wu Chun Sing	37	Independent non-executive Director	3 September 2020	3 September 2020	Overseeing the management of our Group independently

Senior management

Loh Wei Loon	42	Sales and marketing manager	20 May 2010	30 April 2011	Formulating our sales target and marketing strategies, managing our sales department and customer relationship as well as developing our business in Southeast Asia
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DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position in our Group	Date of joining our Group	Date of appointment as a Director/ senior management	Main roles and responsibilities
Luah Kok Lam	52	Assistant general manager	2 January 2007	1 July 2011	Overseeing business development and marketing of our Group
Hartono Liu Chan Ong	40	Senior project manager	1 March 2012 <i>(Note)</i>	1 July 2017	Overseeing the overall operations in engineering and projects control of our PRC operation
Khor Why Ping	41	Senior operation and quality manager	1 June 2010	1 January 2018	Overseeing the overall operations in engineering and productions coordination, sales services as well as quality control of our PRC operation

Note: This is the date Mr. Hartono Liu Chan Ong rejoined our Group.

The business address of Mr. Loh Wei Loon is Lot P.T. 14274, Jalan SU8, Persiaran Tengku Ampuan, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia. The business address of Mr. Luah Kok Lam, Mr. Hartono Liu Chan Ong and Mr. Khor Why Ping is Building 24, Chuansha International Precision Park, No. 6999 Chuansha Road, Pudong New Area, Shanghai, the PRC.

DIRECTORS

Executive Directors

Mr. Ng Yew Sum, aged 53, was appointed as a Director on 11 June 2019 and was re-designated as an executive Director and Chairman on 16 August 2019. He is a director of all of our subsidiaries. He is also the chairman of the nomination committee and a member of the remuneration committee. He is primarily responsible for overseeing the business operation as well as business development and strategy of the Group. Mr. Ng has 30 years of sales experience in the cleanroom engineering industry. He joined our Group in January 1990 initially as sales executive of Micron (M), where he was responsible for sales and marketing of cleanroom equipment, and was promoted as sales manager in January 1994, where he was responsible for overseeing the sales and marketing team; he held the position as managing director of Channel Systems (Asia) from September 2006 to date, of Micron (M) from April 2006 to date and of CSA Technic from March 2017 to date.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ng obtained the Malaysia Higher School Certificate in 1986.

Mr. Ng has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Ng is one of our Controlling Shareholders.

Mr. Chin Sze Kee, aged 44, was appointed as a Director on 11 June 2019 and was re-designated as an executive Director on 16 August 2019, and is a director of Micron Cleanroom and Max Micron. He is primarily responsible for overseeing the overall operations in sales and marketing, engineering as well as the manufacturing of Micron (M). Mr. Chin has 19 years of sales experience in the cleanroom systems industry. He joined our Group in March 2001 initially as sales engineer of Micron (M), where he was responsible for tender and sales quotation preparation, providing engineering support for project implementation as well as after-sales services, and subsequently advanced to several positions including 1) assistant manager of regional sales and marketing from May 2004, where he was mainly engaged in sales and marketing of Micron (M) fan filter units and specialty cleanroom equipment in the PRC and Philippines markets; 2) area manager of China operation from January 2005, where he was mainly responsible for overseeing sales and marketing, project implementation and after-sales services of cleanroom equipment and fan filter units; 3) senior manager of China operation from July 2006 assuming the same responsibilities; and 4) general manager of Micron (M) since February 2007, in charge of the overall operations of the company and its subsidiaries with focus on product development.

Mr. Chin obtained a Bachelor of Science in Engineering (Mechanical) from Western Michigan University in April 2000.

Mr. Chin has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Chin is one of our Controlling Shareholders.

Mr. Law Eng Hock, aged 44, was appointed as a Director on 11 June 2019 and was re-designated as an executive Director on 16 August 2019 and is primarily responsible for overseeing the overall operations in sales and marketing, engineering as well as manufacturing of Channel Systems (Shanghai). Mr. Law has 20 years of sales experience in specialty equipment industry. Prior to joining our Group, from February 2000 to August 2001, he worked as sales executive at Nippon Electric Glass (Malaysia) Sdn. Bhd. and was responsible for sales and marketing of glass fibre. He joined our Group in September 2001 initially as regional marketing executive of Channel Systems (Asia), where he was responsible for sales and marketing of cleanroom wall and ceiling systems, and subsequently advanced to several positions including 1) assistant sales manager from July 2004, where he was mainly in charge of sales and marketing of cleanroom wall and ceiling systems; 2) marketing manager from January 2005, assuming the same responsibilities; and 3) general manager of China operation from July 2006 to date, where he was mainly in charge of sales and marketing as well as projects and production of Channel Systems (Shanghai).

Mr. Law obtained a diploma in marketing from Port Dickson Polytechnic in June 1997, and a Bachelor of Business Administration Management (Honours) from Multimedia University of Malaysia in July 1999.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Law has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Law is one of our Controlling Shareholders.

Mr. Lim Kai Seng, aged 58, was appointed as a Director on 11 June 2019 and was re-designated as an executive Director on 16 August 2019 and is primarily responsible for overseeing the sales and marketing, project operation and research and development of Channel Systems (Asia) and CSA Technic. Mr. Lim has 37 years of experience in mechanical engineering industry. Prior to joining our Group, he has worked as draughtsman at Hart Engineering Sdn. Bhd. from February 1983 to February 1984, responsible for formulating technical plans and drawings. From March 1984 to August 1987, he worked as field supervisor of construction department at Otis Elevator Company (M) Sdn. Bhd. and was responsible for site supervision of projects, attending site meetings with contractors, and planning of manpower and materials input. From May 1988 to March 2000, he worked at Comfort Air-Condition Refrigeration Engineering Sdn. Bhd. as project executive, responsible for tender preparation, project cost control, among other project operations, where he started accumulating experience in the cleanroom engineering industry and engaged in projects of renowned clients. From March 2000 to August 2000, he worked as senior project executive at Merino-O.D.D. Sdn. Bhd., where he was mainly engaged in undertaking project engineering work for Wafer Technology (Malaysia) Sdn. Bhd. (currently known as Silterra Malaysia Sdn. Bhd.); from September 2000 to March 2005, he continued working at the company as area manager, and was responsible for business development in the northern Malaysia region. He joined our Group in May 2005 initially as operation manager of Channel Systems (Asia), where he was responsible for overseeing project and marketing teams as well as the daily operation of the company, and subsequently served as general manager of Channel Systems (Asia) since February 2007 where he was mainly responsible for overseeing sales and marketing, project operation and research and development; he has also been in charge of the daily operation of CSA Technic since September 2017.

Mr. Lim has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Lim is one of our Controlling Shareholders.

Ms. Yap Chui Fan, aged 57, was appointed as a Director on 11 June 2019 and was re-designated as an executive Director on 16 August 2019 and was mainly responsible for overseeing overall human resources, administration, financial management and accounting functions of the Group. She is also a director of Micron Cleanroom. Ms. Yap has over 36 years of financial and corporate finance experience.

DIRECTORS AND SENIOR MANAGEMENT

The following table summarises Ms. Yap's working experience prior to joining our Group:

Company name	Period	Title	Responsibilities
Yeo Hiap Seng Trading Sdn Bhd	June 1983 to September 1989	accounts clerk	<ul style="list-style-type: none"> Handling daily accounting matters
	October 1989 to February 1992	accounts assistant	<ul style="list-style-type: none"> Handling general ledger reconciliation, analysis and reporting
Chocolate Products Trading Sdn Bhd	February 1992 to June 1993	accounts supervisor	<ul style="list-style-type: none"> Overseeing the daily accounting operations and financial reporting
	July 1993 to December 1995	accounts officer	<ul style="list-style-type: none"> Handling monthly financial reporting and credit control
	January 1996 to June 1999	senior finance executive	<ul style="list-style-type: none"> Handling the group's consolidated accounts and financial analysis
Taylor Nelson Sofres Malaysia Sdn Bhd	June 1999 to November 2000	assistant accounting manager	<ul style="list-style-type: none"> in charge of financial management, taxation, costing analysis and reporting
MIMOS Berhad	November 2000 to June 2001	accountant	<ul style="list-style-type: none"> in charge of financial management and system, application and products (SAP) implementation
PJI Holdings Berhad (Stock code: 7122.MY, now known as YFG Berhad)	June 2001 to September 2006	manager, corporate finance senior manager, corporate finance senior manager, group finance & accounts head, group finance and accounts director, group finance & accounts	<ul style="list-style-type: none"> in charge of listing exercise and corporate exercise in charge of financial planning, strategy and management of the Group as well as project accounting, listing compliance, tax planning, treasury management, among other accounting functions

DIRECTORS AND SENIOR MANAGEMENT

She joined our Group in September 2006 initially as group financial controller of Micron (M), in charge of overall human resources, administration, financial and accounting management; since January 2016, she has served as group financial controller of Channel Systems (Asia), assuming the same responsibilities.

Ms. Yap obtained a higher stage group diploma in accounting from the London Chamber of Commerce and Industry in March 1984. Ms. Yap was certified as a registered accountant with the Malaysian Institute of Accountants in July 1999 and has become a chartered accountant with the institute since June 2001. She was admitted as an associate of the Association of Chartered Certified Accountants in May 1999 and has become a fellow of the association since May 2004. She has been an associate of the Chartered Tax Institute of Malaysia (formerly known as the Malaysian Institute of Taxation) since November 2003, an ASEAN Chartered Professional Accountant since April 2018, and a member of the Registered Company Secretary with The Companies Commission of Malaysia since November 2018 to date. In addition, she was admitted as an affiliate member of the Association of International Accountants in October 1993 and had been an associate of the association from February 1996 to December 1999. She was also certified as a member of the Financial Planning Association of Malaysia from September 2003 to August 2006.

Ms. Yap has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Ms. Yap is one of our Controlling Shareholders.

Independent non-executive Directors

Mr. Ng Seng Leong, aged 60, was appointed as our independent non-executive Director on 3 September 2020. He is the chairman of the remuneration committee and a member of the audit committee and the nomination committee. Mr. Ng has experience in the financial industry. Mr. Ng held a number of positions in various financial institutions from 1985 to 2004. From September 2004 to March 2013, he served at JP Morgan Asset Management (Asia Pacific) Limited (formerly known as JF Asset Management Limited) as managing director and head of central dealing, mainly responsible for managing a group of 19 dealers in the ex-Japan joint venture dealing desks with accumulated asset under management of approximately USD60 billion. From February 2015 to September 2017, he became director at Apex Investment Services Berhad in charge of investor portfolio management.

Mr. Ng was a certified financial planner with the Financial Planning Association of Malaysia from March 2003 to December 2017. He served at JF Asset Management Limited as the representative for Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities from September 2004 to December 2007; as the representative of the company for Type 2 (dealing in futures contracts) regulated activity from February 2006 to December 2007; and as the responsible officer for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities from December 2007 to March 2013.

Mr. Ng obtained a bachelor degree in technology from University of Bradford in July 1983. He further obtained a master degree in business administration from the same institute in December 1984.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ng has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Martin Giles Manen, aged 65, was appointed as our independent non-executive Director on 3 September 2020. He is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee. Mr. Manen has over 40 years of accounting and management experience at a top accountancy firm and top multinational conglomerates.

The following table summarises Mr. Manen's working experience at KPMG:

Company name	Period	Title	Responsibilities
KPMG Kuala Lumpur office	February 1975 to May 1979	student under the Malaysian Association of Certified Public Accountants Articleship Scheme	<ul style="list-style-type: none"> Receiving training in audit, tax and secretarial departments
	May 1979 to November 1979	audit assistant	<ul style="list-style-type: none"> In charge of audit teams on assignments
	November 1979 to October 1980	qualified audit assistant	<ul style="list-style-type: none"> In charge of audit teams on assignments
KPMG London office	October 1980 to December 1983	qualified senior supervisor	<ul style="list-style-type: none"> Working on audit, tax and special work assignments
	January 1983 to June 1983	assistant manager	<ul style="list-style-type: none"> Overseeing audit, tax and special work assignments
KPMG Kuala Lumpur office	June 1983 to December 1984	assistant manager	<ul style="list-style-type: none"> Working on a variety of tax compliance and advisory assignments
	January 1985 to December 1985	manager	<ul style="list-style-type: none"> Overseeing tax compliance and advisory assignments

DIRECTORS AND SENIOR MANAGEMENT

The following table summarises Mr. Manen's working experience at Kumpulan Sime Darby Berhad (formerly known as Sime Darby Berhad):

Period	Title	Responsibilities
January 1986 to July 1990	group tax controller	<ul style="list-style-type: none">In charge of tax compliance, advisory and planning of the group and reporting and heading the group tax department
July 1990 to December 2000	group company secretary	<ul style="list-style-type: none">Overseeing the group's secretarial and tax departments
December 2000 to January 2005	group finance director	<ul style="list-style-type: none">Reporting to the group chief executive
February 2005 to July 2007	director – business development	<ul style="list-style-type: none">In charge of the home products division and certain business operation and investments in Hong Kong and the PRC
May 2006 to July 2007	divisional director – allied products & services division	<ul style="list-style-type: none">Overseeing the overall operation of the division

From January 2008 to May 2009, Mr. Manen was employed as chief executive officer of Perception Management Sdn Bhd, being responsible for the overall management of the company's business and client service and management.

Mr. Manen was appointed as an independent non-executive director of Heineken Malaysia Berhad, a company listed on Bursa Malaysia (stock code: 3255) on 28 August 2008 and was subsequently appointed as chairman of audit and risk management committee since 4 November 2010 to date and senior independent non-executive director since 2 November 2012 to date. On 29 November 2019, he was appointed as an independent non-executive director of BOS Wealth Management Malaysia Berhad (company number: 336059-U), an unlisted public company incorporated in Malaysia, which was previously known as Pacific Mutual Fund Bhd. On 1 July 2020, he was appointed as the Chairman of the Board of Hong Leong MSIG Takaful Berhad (company number: 738090-M), a licensed takaful operator in Malaysia.

In addition, Mr. Manen was appointed to the board of Unisem (M) BHD, a company listed on Bursa Malaysia (stock code: 5005) as an independent non-executive director from 28 July 2009 to 25 April 2018 and had concurrently served as chairman of audit and risk management committee from 2 November 2009 to 25 April 2018.

Mr. Manen has been a member of the Malaysian Institute of Certified Public Accountants since March 1980 to date. He was admitted to the Malaysian Institute of Accountants as a registered accountant in June 1988 and has been a chartered accountant of the institute since June 2001 to date.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Chun Sing, aged 37, was appointed as our independent non-executive Director on 3 September 2020. He is also a member of the audit committee. Mr. Wu has over 15 years of experience in auditing, accounting and financial reporting. Mr. Wu started his career at Ernst & Young in September 2004 as staff accountant until September 2006, and was subsequently promoted to 1) senior accountant in October 2006, 2) manager in October 2010, and 3) senior manager, his last position, from October 2013 to August 2015, in charge of assurance matters. From May 2016 to date, Mr. Wu has been the sole proprietor of PW CPA & Co., a firm of certified public accountants in Hong Kong, where he acts as managing partner responsible for management of the firm and reviewing audit engagements.

Mr. Wu has been registered as a practicing member of the Hong Kong Institute of Certified Public Accountants since May 2016.

Mr. Wu obtained a degree of Bachelor of Arts (honours) in Accountancy from the Hong Kong Polytechnic University in November 2004.

Mr. Wu has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Save as disclosed above, none of our Directors:

- (i) held any other positions in our Company or other members of our Group as at the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or substantial shareholders or controlling shareholders of our Company as at the Latest Practicable Date; and
- (iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

Except for such interests of the executive Directors in the Shares which are disclosed in “Substantial Shareholders” and “Statutory and General Information — Further Information about Our Directors — 11. Disclosure of Interests” in Appendix V to this prospectus, none of our Directors has any interests in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of our Company.

Each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Loh Wei Loon, aged 42, is our sales and marketing manager and is primarily responsible for formulating our sales target and marketing strategies, managing our sales department and customer relationship as well as developing our business in Southeast Asia. He joined our Group in May 2010. Mr. Loh has over 17 years of sales and customer services experience in mechanical engineering industry. He joined ASM Assembly Equipment (M) Sdn, Bhd. in April 2006 as service engineer. He joined our Group in May 2010 initially as sales and marketing executive of Micron (M), where he was engaged in sales and marketing as well as business development, and was subsequently promoted as assistant sales and marketing manager in April 2011, where he was mainly responsible for overseeing sales and marketing as well as business development; since July 2012, he has served as sales and marketing manager, where he was mainly in charge of leading the sales team and reporting to general manager.

Mr. Loh obtained a bachelor degree in technology (management) from University of Ballarat (now known as Federation University Australia) in December 2002.

Mr. Loh has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Luah Kok Lam, aged 52, is our assistant general manager and is primarily responsible for overseeing business development and marketing of our Group. Mr. Luah has over substantial experience in cleanroom industry. He joined our Group in January 2007 initially as senior sales manager of Channel Systems (Shanghai), where he was responsible for overseeing sales and project managements for cleanroom products, and was promoted as assistant general manager of the company in July 2011, assuming the same responsibilities; subsequently, he was transferred to Channel Systems (Asia) since January 2017, serving the same title and responsibilities.

Mr. Luah has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Hartono Liu Chan Ong, aged 40, is our senior project manager and is primarily responsible for overseeing the overall operations in engineering and projects control of Channel Systems (Shanghai). He owned 3.0% interest of Channel CR Material as at the Latest Practicable Date. Mr. Liu has over 16 years of experience in mechanical engineering industry. He joined our Group in December 2006. He joined Kanzen Tetsu Sdn. Bhd. in January 2003 as production engineer, and is responsible for monitoring daily production operation. He joined our Group in December 2006 initially as production engineer of Channel Systems (Shanghai), where he was responsible for monitoring production for projects sized below RMB100,000, and subsequently advanced to several positions including 1) senior project engineer from July 2008, responsible for monitoring overall operations for projects sized between RMB100,000 and RMB1 million; and 2) assistant project manager from July 2010, where he was in charge of overall operations for projects sized above RMB1 million. He left the Group briefly and rejoined our Group in March 2012 as a project manager, where he was in charge of overall operations for projects with higher requirements as well as engineering staff training. He was promoted to the position of senior project manager since July 2017, overseeing project operations and reporting to general manager.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu obtained a bachelor degree with first class honour in mechanical and manufacturing engineering from Liverpool John Moores University in September 2002.

Mr. Liu has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

Mr. Khor Why Ping, aged 41, is our senior operation and quality manager and is primarily responsible for overseeing the overall operations in engineering and productions coordination, sales services as well as quality control of Channel Systems (Shanghai). He owned 3.5% interest of Channel CR Material as at the Latest Practicable Date. Mr. Khor has over 13 years of operation experience in cleanroom engineering industry. He joined our Group in June 2010. Prior to joining our Group, he has worked as operation manager at Suzhou Flexcon Clean Room Systems Co., Ltd. from November 2006 to September 2009, responsible for overseeing overall factory operations. He joined our Group in June 2010 initially as assistant production and quality manager of Channel Systems (Shanghai), where he was in charge of production planning and quality control, and subsequently advanced to operation and quality manager from June 2013 before his current role since January 2018.

Mr. Khor obtained a bachelor degree with honours in engineering (process and food) from University of Putra Malaysia in April 2004.

Mr. Khor has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

COMPANY SECRETARY

Ms. Wong Pui Yin Peony (黃佩彥), was appointed as our company secretary on 16 August 2019. Ms. Wong is a senior manager of corporate services division of Tricor Services Limited. She has over 20 years of experience in providing company secretarial services to private and listed companies. Ms. Wong is currently the company secretary of three listed companies on the Stock Exchange, namely, SinoMab BioScience Limited (stock code: 3681), Grand Baoxin Auto Group Limited (stock code: 1293), and Sino Gas Holdings Group Limited (stock code: 1759).

Ms. Wong graduated from The University of New South Wales with a bachelor of commerce degree in accounting and finance in June 1996 and subsequently a master of business administration degree in June 2002. She has been a certified practising accountant of CPA Australia (formerly known as the Australian Society of Certified Practising Accountants) since January 2000 and a certified public accountant of Hong Kong Institute of Certified Public Accountants since May 2019.

BOARD COMMITTEES

The audit committee, remuneration committee and nomination committee of our Company were approved to be established by resolutions passed by our Board on 3 September 2020.

Each of the above three committees has written terms of reference. The committees operate in accordance with the terms of reference established by our Board.

DIRECTORS AND SENIOR MANAGEMENT

Audit committee

Our audit committee was established on 3 September 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee of our Company are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and risk management, and oversee the internal control procedures of our Company. The audit committee consists of three members: Mr. Martin Giles Manen (Chairman), Mr. Ng Seng Leong and Mr. Wu Chun Sing.

Remuneration committee

Our remuneration committee was established on 3 September 2020 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary functions of the remuneration committee of our Company are to make recommendation to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors determine their own remuneration. The remuneration committee is made up of three members: Mr. Ng Seng Leong (Chairman), Mr. Martin Giles Manen and Mr. Ng Yew Sum.

Nomination Committee

Our nomination committee was established on 3 September 2020 with written terms of reference in compliance with the CG Code. The primary functions of the nomination committee of our Company are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendation to the Board on any proposed changes to the Board to complement our Company’s corporate strategy; identify individuals suitably qualified as potential board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of our chairman and the Chief Executive Officer. The nomination committee consists of three members: Mr. Ng Yew Sum (Chairman), Mr. Martin Giles Manen and Mr. Ng Seng Leong.

BOARD DIVERSITY

Our board has adopted a board diversity policy in accordance with Rule 13.92 of the Listing Rules. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy and contribution that the selected candidates may bring to our Board, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on our Board. Our Nomination Committee will monitor the implementation of our Board diversity policy and shall monitor its implementation on an ongoing basis. It shall report annually, in our corporate governance report, on our Board’s diversity policy, the measurable objectives for implementing this policy and the progress of achieving our objectives to achieve Board diversity.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations.

The aggregate amount of remuneration including salaries, allowances and benefits in kind which were paid to our Directors for FY2017, FY2018, FY2019 and 3M2020 were approximately RMB5.7 million, RMB5.5 million, RMB7.6 million and RMB0.8 million, respectively.

The five highest paid individuals of our Group included four, five, five and five directors for FY2017, FY2018, FY2019 and 3M2020, respectively. The amount of remuneration including salaries, allowances and benefits in kind which were paid to the remaining highest paid individual for FY2017 was approximately RMB0.7 million.

Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management. After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group. Under such arrangement and pursuant to our Directors' service contracts and letters of appointment referred to in the paragraph headed "Statutory and General Information — C. Further Information about our Directors, Chief Executive and Substantial Shareholders — 2. Directors' service contracts and letters of appointment" in Appendix V to this prospectus, the aggregate amount of remuneration including salaries, allowances and benefits in kind payable to our Directors (excluding any discretionary bonuses) for the year ending 31 December 2020 is estimated to be approximately RMB3.6 million.

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors or senior management as an inducement to join or upon joining our Group or as a compensation for loss of office. None of our Directors waived any remuneration during the same period.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds an equity interest. For further details of the Share Option Scheme, see "Statutory and general information — D. Share Option Scheme" in Appendix V.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Ballas Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction (including share issues and repurchases) which might be a notifiable, connected transaction or continuing connected transaction under the Listing Rules is contemplated;
- (iii) if applicable, where our Company proposes to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, development or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes any inquiry of us under Rule 13.10 of the Listing Rules.

The term of appointment of our compliance adviser will commence on the Listing Date and will end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

EMPLOYEES

See “Business — Employees” for further details relating to our number of employees, training, recruitment and remuneration policies, our relationship with our employees and employees’ benefits.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons or entities will, immediately following the completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly and/or indirectly interested in 10% or more of the total number of shares in any class of share carrying rights to vote in all circumstances at general meetings of any member of our Group:

Interest in our Company

Name of shareholders	Capacity / Nature of interest	As at 21 August 2019		As at the Listing Date	
		Number and class of securities (L) ⁽¹⁾	Approximate percentage of shareholding	Number and class of securities (L) ⁽¹⁾	Approximate percentage of shareholding
Mr. Ng	Beneficial owner	309,151 Shares	30.92%	324,608,550 Shares	23.19%
Yap Fui Lee ⁽²⁾	Interest of spouse	309,151 Shares	30.92%	324,608,550 Shares	23.19%
Mr. Chia	Beneficial owner	137,022 Shares	13.70%	143,873,100 Shares	10.28%
Yau Ah Lan @ Fara Yvonne ⁽³⁾	Interest of spouse	137,022 Shares	13.70%	143,873,100 Shares	10.28%
Douglas Frederick Bockmiller ⁽⁴⁾⁽⁶⁾	Beneficial owner	59,294 Shares	5.93%	62,258,700 Shares	4.45%
	Interest of controlled corporation and interest of spouse	157,208 Shares	15.72%	165,068,400 Shares	11.79%
Lauren Lindquist Bockmiller ⁽⁵⁾⁽⁶⁾	Beneficial owner	59,294 Shares	5.93%	62,258,700 Shares	4.45%
	Interest of controlled corporation and interest of spouse	157,208 Shares	15.72%	165,068,400 Shares	11.79%

SUBSTANTIAL SHAREHOLDERS

Notes:

1. The letter "L" denotes the entity/person's long position in the Shares.
2. Yap Fui Lee is the spouse of Mr. Ng. By virtue of the SFO, she is deemed to be interested in Mr. Ng's shares.
3. Yau Ah Lan @ Fara Yvonne is the spouse of Mr. Chia. By virtue of the SFO, she is deemed to be interested in Mr. Chia's shares.
4. Douglas Frederick Bockmiller held 59,294 Shares as at 21 August 2019 and will hold 62,258,700 Shares upon Listing as beneficial owner.

Each of Channel Systems Inc. and Pacific Panels Inc. held 48,957 Shares as at 21 August 2019 and will hold 51,404,810 Shares, representing 3.67% of our total issued shares, as at the Listing Date. They are owned by Douglas Frederick Bockmiller as to 45% and 50%, respectively. By virtue of the SFO, Douglas Frederick Bockmiller is deemed to be interested in the Shares held by Channel Systems Inc. and Pacific Panels Inc..

5. Lauren Lindquist Bockmiller held 59,294 Shares as at 21 August 2019 and will hold 62,258,700 Shares upon Listing as beneficial owner.

Channel Systems Inc. held 48,957 Shares as at 21 August 2019 and will hold 51,404,810 Shares, representing 3.67% of our total issued shares, as at the Listing Date. It is owned by Lauren Lindquist Bockmiller as to 55%. By virtue of the SFO, Lauren Lindquist Bockmiller is deemed to be interested in the Shares held by Channel Systems Inc..

6. Lauren Lindquist Bockmiller and Douglas Frederick Bockmiller are spouses of each other. By virtue of the SFO, they are deemed to be interested in each other's Shares.

Save as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the Global Offering and without taking into any account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly and/or indirectly interested in 10% or more of the total number of shares in any class of share carrying rights to vote in all circumstances at general meetings of any member of our Group.

SHARE CAPITAL

SHARE CAPITAL OF THE COMPANY

The following is a description of the authorised and issued share capital of our Company as at the date of this prospectus and shares issued or to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalisation Issue and the Global Offering:

		Aggregate nominal value HK\$
Authorised share capital:		
38,000,000	Shares as at the Latest Practicable Date	380,000
10,000,000,000	Shares as at the date of this prospectus	100,000,000
Shares issued or to be issued, fully paid or credited as fully paid:		
10,000,000	Shares in issue as at the date of this prospectus	100,000
1,040,000,000	Shares to be issued pursuant to the Capitalisation Issue	10,400,000
<u>350,000,000</u>	Shares to be issued under the Global Offering	<u>3,500,000</u>
<u>1,400,000,000</u>	Total	<u>14,000,000</u>

Assumptions:

The above table assumes that the Global Offering has become unconditional and the Shares are issued pursuant to the Global Offering and the Capitalisation Issue. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

The issued share capital of our Company immediately upon completion of the Capitalisation Issue and Global Offering will be as follows (without taking into account the Shares to be issued upon exercise of the Share Options):

Shares issued or to be issued, fully paid or credited as fully paid:

10,000,000	Shares in issue as at the date of this prospectus	100,000
1,040,000,000	Shares to be issued pursuant to the Capitalisation Issue	10,400,000
<u>350,000,000</u>	Shares to be issued under the Global Offering	<u>3,500,000</u>
<u>1,400,000,000</u>	Total	<u>14,000,000</u>

SHARE CAPITAL

RANKING

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares. The Offer Shares will carry the same rights as all Shares in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus (save for entitlements to the Capitalisation Issue).

CAPITALISATION ISSUE

Pursuant to the written resolutions of our Shareholders passed on 3 September 2020, conditional upon the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorised to allot and issue on the Listing Date a total of 1,040,000,000 Shares credited as fully-paid at par to the Shareholders whose names appear on the register of members of our Company at close of business on 7 October 2020 in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$10,400,000 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to the Capitalisation Issue shall rank *pari passu* in all respects with the existing issued Shares.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of the Listing and at all times thereafter, we must maintain the minimum prescribed percentage of at least 25% of our total issue share capital in the hands of the public (as defined in the Listing Rules).

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of our Memorandum of Association and our Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital by special resolution of Shareholders. See “Summary of the Constitution of the Company and Cayman Companies Law — 2. Articles of Association — Alteration of capital” in Appendix IV for further details.

Pursuant to the Cayman Companies Law and the terms of our Memorandum of Association and our Articles of Association, all or any of the special rights attached to our Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares in that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares in that class. See “Summary of the Constitution of the Company and Cayman Companies Law — 2. Articles of Association — (ii) Variation of rights of existing shares or class of shares” in Appendix IV for further details.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot and issue Shares, particulars of which are set out in “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in writing of our Shareholders passed on 3 September 2020” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to repurchase Shares, particulars of which are set out in “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in writing of our Shareholders passed on 3 September 2020” and “Statutory and General Information — A. Further Information about Our Group — 6. Repurchase of our own securities” in Appendix V to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally approved and adopted the Share Option Scheme, particulars of which are set out in “Statutory and General Information — D. Share Option Scheme” in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial statements as at and for each of the three years ended 31 December 2017, 2018 and 2019 and three months ended 31 March 2020 together with the accompanying notes set out in the Accountants' Report included as Appendix I to this prospectus and selected historical consolidated financial data, in each case, together with the accompanying notes thereto included elsewhere in this prospectus. The historical financial information included in the Accountants' Report has been prepared in accordance with HKFRSs. Our financial information and the discussion and analysis below assume that our current structure had been in existence throughout the Track Record Period. For further information in relation to our Group structure, please refer to section headed "History and Development" in this prospectus. Additionally, the following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our future results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including the factors set out in the section headed "Risk Factors" and elsewhere in this prospectus.

Our financial year begins from 1 January and ends on 31 December. All references to "FY2017", "FY2018" and "FY2019" mean the financial years ended 31 December 2017, 2018 and 2019, respectively. All references to "3M2019" and "3M2020" means the three months ended 31 March 2019 and 2020, respectively.

Any discrepancies in any table or elsewhere in this document between totals and sums of amounts listed herein are due to rounding.

OVERVIEW

We are a cleanroom⁽¹⁾ wall and ceiling systems and cleanroom equipment provider based in the PRC and Malaysia, with a proven track record of engaging in cleanroom projects in the PRC and Southeast Asia. We have a market share of 1.1%⁽²⁾ in the PRC cleanroom wall and ceiling system market, while we have a market share of 8.3%⁽²⁾ in the Malaysian cleanroom facility market. We provide a comprehensive range of cleanroom products and services based on the customers' needs, including the development, production and installation of cleanroom wall and ceiling systems, and cleanroom equipment such as fan filter units (which filter and regulate air flow in a cleanroom), air showers, pass boxes and HEPA filters. Our products are utilised in a wide variety of production facilities, industries and medical environments, such as cleanrooms for manufacturing semiconductor and pharmaceutical products. Our major customers are main contractors and cleanroom design and engineering companies. While we provide our products and services mainly in the PRC, Malaysia, Singapore and the Philippines during the Track Record Period, we also have been engaged by our customers to supply cleanroom products and services in other overseas countries.

(1) A cleanroom is a contained environment equipped with systems and equipment to reduce particulate contamination which may adversely affect the operation process, and to control other environmental parameters such as temperature, humidity and pressure.

(2) In terms of revenue in 2019, according to the F&S Report.

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For FY2017, FY2018, FY2019 and 3M2020, our revenue was approximately RMB138.3 million, RMB177.5 million, RMB206.2 million and RMB26.6 million, respectively. For FY2017, FY2018, FY2019 and 3M2020, our net profit was approximately RMB22.0 million, RMB32.3 million, RMB25.9 million and RMB2.8 million, respectively. Our Adjusted Net Profit (non-HKFRS measure⁽¹⁾) for FY2017, FY2018, FY2019 and 3M2020 were approximately RMB22.0 million, RMB33.7 million, RMB37.4 million and RMB4.7 million, respectively.

The following table sets forth our revenue by business segment during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Cleanroom wall and ceiling systems	118,341	85.6	151,291	85.2	177,258	86.0	41,848	86.8	22,952	86.2
Cleanroom equipment	13,056	9.4	16,904	9.5	14,536	7.0	3,738	7.7	781	2.9
Others	6,872	5.0	9,353	5.3	14,375	7.0	2,653	5.5	2,903	10.9
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note:

Others represents revenue from our ancillary businesses including trading of cleanroom equipment of third party brands and provision of cleanroom preventive maintenance service.

Please see the section “Business — Overview” for an overview of our business.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial conditions have been and are expected to be affected by a number of principal factors which are set forth below.

Significant portion of our business is project-based and our revenue is affected by our ability to win contracts through a tendering or invitation for quotation process

Our services are generally provided on a project basis. During the Track Record Period, we generated approximately 39.4% to 69.2% of our revenue from cleanroom projects, i.e. contracts for which we provided installation service for our cleanroom products or contracts which we will generally charge our customers based on the percentage completed of installation work on our supplied products and the revenue generated are recognised over time which revenue

Note:

- The term of Adjusted Net Profit is not defined under HKFRS. We believe that this non-HKFRS measure provides useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed “Financial Information — Summary of Results of Operations — Non-HKFRS measures” for further details.

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generated are recognised over time by stages in accordance to completion, where we are engaged as a cleanroom products supplier (for cleanroom wall and ceiling systems and/or cleanroom equipment) on a project basis. While our customers will invite us for tender or quotation, whether we can successfully secure any contract will depend on our bid. Our future growth and success will then depend on our ability to secure contracts continuously through tender or quotation.

If there is a significant decrease in the number and/or size of our contracts or if we are unable to secure contracts with a reasonable profit margin in the future, our financial condition and results of operations may be materially and adversely affected.

Our profit margin fluctuate due to competition in the tendering and quotation process and our ability to control costs

During the Track Record Period, majority of our revenue was derived from contracts awarded through competitive tendering or quotation process. For FY2017, FY2018, FY2019 and 3M2020, our revenue generated from cleanroom projects (which revenue generated are recognised over time by stages in accordance to completion) accounted for approximately 39.4%, 55.9%, 69.2% and 65.2% of our total revenue, and our success rate in respect of acceptance of our tenders or quotations were approximately 72.7%, 72.0%, 69.2% and 87.5%, respectively. Our profitability depends largely on the price of quotation or tender we submit, which is determined based on the estimated costs plus a certain mark-up margin. In preparing for a tender or a quotation, we evaluate and analyse the contract in terms of scope of works, complexity of the contract, schedule of works, manpower needed and availability of resources. We maintain competitiveness of our price of quotation or tender while maximising our profit margin. When we bid for a tender or are invited for a quotation, we do not apply a standard mark-up margin and are required to adjust our margin and sometimes lower our expected margin in order to maintain or increase the competitiveness of our tenders or quotations. Therefore, our profit margin fluctuated from contract to contract.

Our profit margin also depends on other factors such as (i) terms of the contracts; (ii) contract duration; (iii) how efficient the works are implemented; (iv) variation orders; (v) our ability to control the contract cost and progress; and (vi) general market conditions. As such, we cannot assure you that our future contracts may continue to be profitable and our profit margin may fluctuate from time to time.

Without taking into consideration variation orders requested by our customers in the course of project execution, the original contract price of a contract is fixed at the time the contract is awarded to us. The actual time and costs for completing a contract may be materially and adversely affected by various factors, including (i) the specifications and difficulties of the contract; (ii) the duration of the contract; (iii) the site locations; (iv) unfavourable weather conditions; and (v) the resources availability. Significant changes in any of these factors can lead to delays in completion, costs overrun by us or mismatch of actual time and costs with our estimates. We cannot assure you that the actual time and costs incurred would match our initial estimate. If we are unable to control our costs within our estimation or recover the extra costs incurred, our profit margin and result of operations may be materially and adversely affected.

FINANCIAL INFORMATION

Any delay of our projects will materially affect our financial performance

Our revenue for cleanroom projects is recognised in our accounts over time, based on the percentage of completion.

Our project progress is subject to certain factors that are beyond our control, including adverse weather conditions, epidemics, labour shortage, shortage and/or price fluctuations of raw materials, natural disasters, as well as unforeseen changes and developments in the project conditions such as change in project design and specifications. Factors that are beyond our control can lead to our delay and even failure in completing certain milestones of the project. Our operational efficiency will be undermined should we be hindered from completing the projects according to our original production planning. Furthermore, should we fail or delay in reaching our milestones and/or completing the project in a timely manner, our billings, revenue, operational cash flows and financial performance, in particular our profit margin, will be adversely affected.

Reliance on top customers

A significant portion of our revenue was derived from a limited number of customers during the Track Record Period. Our five largest customers for FY2017, FY2018, FY2019 and 3M2020 accounted for approximately 61.8%, 71.3%, 65.3% and 78.2% of our total revenue, and our revenue derived from our largest customer represented approximately 22.5%, 50.5%, 36.8% and 24.3% of our total revenue respectively.

We have developed business relationships with our top five largest customers for a period ranging from approximately 1 to 21 years as at the Latest Practicable Date. We enter into contracts with our customers on a project basis. Although our Directors consider that we have established good relationships with our major customers, if our customers decide not to purchase any products from us, change any of their suppliers or propose new terms of sales unacceptable to us, change their business models, or terminate their respective relationships with us at any time as they wish in the future, our sales may decline if we are unable to find alternative customers in a timely manner. Even if we manage to secure other customers, it would take time and resources for us to develop the relationship with new customers. As a result, if any of our major customers substantially reduces its purchase orders with us or terminates its business relationship with us, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Costs of direct materials and subcontracting expenses

Direct materials and subcontracting expenses are the major components in our cost of sales and any changes in our costs of direct materials and subcontracting expenses will have a direct impact on our overall profitability. Our costs of direct materials for the Track Record Period mainly comprised components for cleanroom, aluminium, steel coil and trading items such as raised floors and filters. Our subcontracting expenses for the Track Record Period mainly represented the costs of installation services. Our costs of direct materials and subcontracting expenses together were approximately RMB62.7 million, RMB90.4 million, RMB108.9 million and RMB11.4 million for FY2017, FY2018, FY2019 and 3M2020, respectively.

FINANCIAL INFORMATION

The following table sets forth a sensitivity analysis of fluctuations in our costs of direct materials and subcontracting expenses which illustrates the hypothetical impact on our profit before tax and profit after tax with 15%, 25% and 35% increase or decrease in our costs of direct materials and subcontracting expenses. Given that the analysis is based on a number of assumptions, it is for illustration purpose only and the actual results may differ from the illustration below:

**Changes in the amount
of costs of direct
materials and
subcontracting
expenses** *(Note)*

	+35%	+25%	+15%	-15%	-25%	-35%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in profit before tax for						
FY2017	(21,946)	(15,676)	(9,405)	9,405	15,676	21,946
FY2018	(31,623)	(22,588)	(13,553)	13,553	22,588	31,623
FY2019	(38,107)	(27,219)	(16,332)	16,332	27,219	38,107
3M2020	(3,983)	(2,845)	(1,707)	1,707	2,845	3,983
Change in profit after tax for						
FY2017	(17,215)	(12,296)	(7,378)	7,378	12,296	17,215
FY2018	(25,068)	(17,906)	(10,743)	10,743	17,906	25,068
FY2019	(30,080)	(21,486)	(12,892)	12,892	21,486	30,080
3M2020	(2,582)	(1,844)	(1,107)	1,107	1,844	2,582

Note: The hypothetical percentage of fluctuation was determined by reference to the historical fluctuations during the Track Record Period.

The price and supply of direct materials are subject to a number of factors that are beyond our control, including market demand, inflation, and government policies (e.g. environmental protection). According to the F&S Report, prices of aluminium and steel coil increased from 2016 to 2018 and decreased in 2019. We had closely monitored the changes in price of all of our major direct materials to manage our costs of direct materials. We do not enter into futures contract or engage in other financial hedges against potential price fluctuations for our supplies. When we are engaged by customers to be responsible for the installation of our products, we will engage subcontractors to carry out the actual installation works under our supervision. Our subcontracting fees may therefore vary depending on the size of the contract, the required completion time frame and the complexity of work required. Going forward, we will continue to closely monitor our cost of direct materials and subcontracting expenses.

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Staff costs

Staff costs are one of our key manufacturing expenses and operating expenses, and any changes in our staff costs will have a direct impact on our profitability. Total staff costs that recognised in the cost of sales, selling and distribution expenses and administrative expenses in the consolidated statements of profit or loss of our Group for FY2017, FY2018, FY2019 and 3M2020 were approximately RMB21.2 million, RMB22.4 million, RMB26.9 million and RMB5.0 million, respectively, representing approximately 15.4%, 12.6%, 13.0% and 18.8% of our total revenue, respectively. As at 31 March 2020, we had a total of 163 employees.

The following table sets forth a sensitivity analysis of fluctuations in our staff costs which illustrates the hypothetical impact on our profit before tax and profit after tax with 5%, 8% and 10% increase or decrease in our staff costs. Given that the analysis is based on a number of assumptions, it is for illustration purpose only and the actual results may differ from the illustration below:

Changes in the amount of staff costs <i>(Note)</i>	+10%	+8%	+5%	-5%	-8%	-10%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in profit before tax for						
FY2017	(2,123)	(1,698)	(1,062)	1,062	1,698	2,123
FY2018	(2,241)	(1,793)	(1,121)	1,121	1,793	2,241
FY2019	(2,686)	(2,149)	(1,343)	1,343	2,149	2,686
3M2020	(501)	(401)	(250)	250	401	501
Change in profit after tax for						
FY2017	(1,665)	(1,332)	(833)	833	1,332	1,665
FY2018	(1,777)	(1,421)	(888)	888	1,421	1,777
FY2019	(2,120)	(1,696)	(1,060)	1,060	1,696	2,120
3M2020	(325)	(260)	(162)	162	260	325

Note: The hypothetical percentage of fluctuation was determined by reference to the percentage change of our average salary per staff during the Track Record Period.

Our success is highly dependent on our employees and our ability to attract and retain sufficient management personnel, engineers or other employees with the required expertise and skills. Our management will closely monitor our staff costs by conducting annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees.

Exchange rate fluctuations

We have transactional currency exposures. Most of our production cost and operating expenses are primarily denominated in RMB and RM as our production facilities are located in the PRC and Malaysia, whereas our revenue is mainly denominated in RMB, RM, USD and SGD. Further, our reporting currency is RMB. We are exposed to translational foreign currency risks primarily as a result of revenue that is denominated in foreign currencies other than RMB and

FINANCIAL INFORMATION

purchases that are denominated in foreign currencies other than RMB. As such, fluctuations in foreign exchange rates affect both of our gross profit and gross profit margin. We do not have a currency hedging policy in place, and large fluctuations in foreign exchange rates at any time could have an adverse effect on our financial condition and results of operations. However, our management monitors foreign exchange exposure closely to keep the net exposure to an acceptable level. See “Risk Factors — Risks Relating to Our Business — Fluctuations in the exchange rates of foreign currencies against RMB may cause losses to us and adversely affect our profitability”.

Timing of receipt of progress payments and the release of retention money

We generally receive progress payments from our customers according to the work done or services rendered. Such progress payments would be assessed and agreed by our customers before we issue an invoice to them. For further details of the payment terms granted by our customers, please refer to the section headed “Business — Sales and marketing – Payment terms and credit control” in this prospectus.

Our customers may withhold 3% to 10% of the contract value as retention money after the completion of the installation services or sales of goods upon delivery, which can be released upon the expiry of defect liability period or warranty period, which is usually 12 to 24 months. This amount is included in “contract assets” as our entitlement to this final payment is conditional on our work being satisfactory until the end of retention period. As at 31 December 2017, 2018 and 2019, and 31 March 2020, our retention money amounted to approximately RMB7.7 million, RMB6.5 million, RMB14.7 million and RMB13.5 million, respectively, which was included in contract assets.

We cannot assure you that the financial position of our customers will remain solvent or that our customers will settle our progress payments or retention money on time in full or at all in the future. If we are unable to receive our payments, our liquidity and financial position may be materially and adversely affected.

BASIS OF PRESENTATION AND PREPARATION

Our Company was incorporated in the Cayman Islands on 11 June 2019 as an exempted company with limited liability under the Companies Law in preparation for the Listing. Pursuant to the Reorganisation with details set out in the section “History and Development”, our Company became the holding company of our Group on 11 June 2019. Apart from the Reorganisation, our Company has not commenced any business or operation since its incorporation.

The subsidiaries now comprising our Group were under the common control of the controlling shareholder before and after the Reorganisation. Accordingly, the historical financial information before the completion of the Reorganisation has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

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The consolidated statements of profit or loss and other comprehensive income, statements of the financial position, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholders, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2017, 2018 and 2019, and 31 March 2020 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Details on the basis of presentation and reorganisation are set out in note 1.2 in the Accountants' Report as contained in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENT

We have identified certain significant accounting policies that are critical to the preparation of the financial information. These significant accounting policies are important for the understanding of our financial position and results of operations and are set forth in Note 2 "Summary of significant accounting policies" of the Accountants' Report as contained in Appendix I to this prospectus.

The preparation of the financial information requires our management to make significant and subjective estimates, assumptions and judgement based on our own historical experience, knowledge and assessment of our business conditions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities at each financial year end during the Track Record Period.

As use of estimates and judgement form an integral part of the financial reporting process, the actual results may differ from these assumptions, estimates and judgements and could result in outcomes that require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. These key estimates are set out in note 3 "Critical accounting estimates and judgements" of the Accountants' Report as contained in Appendix I to this prospectus. We applied the accounting estimates throughout the Track Record Period and do not foresee any changes in the near future.

We believe that the following critical accounting policies and accounting estimates involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

Revenue recognition

Our revenue is generated mainly from the sales of goods and the cleanroom projects undertaken by us to external customers. We recognise revenue when a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to our customers. For details on our accounting policies regarding revenue recognition, please refer to note 2.15 in the Accountants' Report as contained in Appendix I to this prospectus.

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Sale of goods

Revenue from the sale of goods for a fixed fee is recognised when (or as) we transfer control of the assets to our customer. For stand-alone sales of goods that are neither customised by us nor subject to significant integration services, control transfers at the point in time when the customer takes undisputed delivery of the goods.

For contract for sales of goods, it only involves one single promise to transfer goods or services to customer, and therefore it is not subject to “separate identification”.

Cleanroom projects

In connection with the contract for cleanroom projects with installation services, we are responsible for the overall management and coordination of these projects, including design, procurement, manufacturing and installation of cleanroom products. We integrate these goods and services into a bundle of promised goods and services that represents the combined output of which the customers contracted for, and therefore these promises are not “separately identifiable” in accordance with paragraph 29(a) of HKFRS 15.

In connection with cleanroom projects which involved a bundle of goods and services that are “highly interdependent” or “highly interrelated”, as our performance does not create an asset with an alternative use and we have an enforceable right to payment for performance completed to date, accordingly, during the Track Record Period, revenue from cleanroom projects is recognised over time during the course of construction by reference to the customer-certified progress reports (which stated the amount of completed works approved by the customers).

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict our performance in transferring control of goods or services. For contracts that contain variable consideration (variation order of construction work), we estimate the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which we will be entitled.

Retention monies

We generally provide for warranties for repairs to any defects and do not provide extended warranties in our sales of goods and cleanroom projects with customers. As such, most existing warranties are considered as assurance-type warranties under HKFRS 15, which are accounted for under HKAS 37. Retention receivables, prior to expiration of retention period, are classified as “contract assets”. The relevant amount of contract asset is reclassified to “trade receivables” when the retention period expires.

Estimation uncertainty

We had made certain key assumptions that may cause material adjustments to the carrying amounts of our assets and liabilities as at the end of each year during the Track Record Period.

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Impairment of non-financial assets

All assets (excluding deferred tax assets) are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Net realisable value of inventories

We determine the net realisation value of our inventories based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. We reassess the estimation at the end of each reporting period. As at 31 December 2017, 2018, 2019 and 31 March 2020, the carrying amounts of our inventories were approximately RMB12.6 million, RMB11.7 million, RMB9.6 million and RMB13.8 million (net of provision for impairment of approximately RMB0.6 million, RMB1.0 million, RMB1.2 million and RMB1.3 million), respectively.

Financial assets at FVTPL

Our financial assets at FVTPL represent our investments in bank wealth management products issued by Bank of Shanghai Co., Ltd. These wealth management products are mandated to principally invest in investment instruments with lower risk such as interbank deposits, fixed income instruments and debentures by the bank. The bank guaranteed 100% of the principal amount of such wealth management products and the Group is allowed to withdraw the principal at any time before maturity. Given the aforesaid nature of the bank wealth management products, it is essentially the same as regular bank deposits in practice, except that there is no guaranteed interests for the bank wealth management products. As the wealth management products are not traded in an active market and subject to the unobservable input, they are classified as the Group's level 3 financial assets. In relation to the valuation of the bank wealth management products, the Directors have reviewed the terms and conditions on the investment agreements, carefully considered all related information. Taking into account the nature of the bank wealth management products (i.e. 100% guaranteed principal amount and available for withdrawal anytime), the Directors decided that it is appropriate to use the discounted cash flow as the valuation approach. Given that there are no significant judgement and overly technical valuation methodologies involved under the discounted cash flow approach, the Directors consider that it is unnecessary to appoint external valuation expert to conduct the valuation. In determining the discount rate for the valuation, the Directors made reference to the interest rate published by the People's Bank of China. The Directors considered the carrying amounts of the bank wealth management products are not materially different from their fair values as at 31 December 2018 and 31 December 2019 due to the bank wealth management products' immediate or short term nature of maturity. The Directors are therefore of the view that the valuation is fair and reasonable, and the Historical Financial Information are properly prepared and disclosed.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation technique, including significant unobservable input and the relationship of unobservable input to fair value are disclosed in note 34.6 of the Accountants' Report in Appendix I to this prospectus.

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The Reporting Accountants considered that the valuation of the Group's level 3 financial assets was properly accounted for on a reasonable basis.

In relation to the valuation analysis performed by the Directors, the Sole Sponsor has (i) discussed with the Company and the Reporting Accountants on the valuation approach and key basis of the valuation; (ii) reviewed the valuation prepared by the Company; and (iii) reviewed the note 34.6 of the Accountants' Report in Appendix I to this prospectus. Based on the aforesaid due diligence and taking into account the aforesaid nature of the bank wealth management products, the low risk of default of Bank of Shanghai Co., Ltd as a company listed on the Shanghai Stock Exchange and regulated by China Banking Regulatory Commission, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation analysis performed by the Directors.

EFFECTS OF THE NEW STANDARDS AND AMENDMENTS TO OUR GROUP

We have applied HKFRS 9 "Financial Instruments" ("**HKFRS 9**"), HKFRS 15 "Revenue from contracts with customers" ("**HKFRS 15**") and HKFRS 16 "Leases" ("**HKFRS 16**") consistently throughout the Track Record Period.

We have assessed the effects of application of HKFRS 15 on our financial position and performance. Our Directors consider that the application of HKFRS 15 did not have significant impact on our financial position and performance for the Track Record Period.

The early adoption of HKFRS 9

HKFRS 9 "Financial Instruments" replaced HKAS 39 "Financial Instruments: Recognition and measurement" for annual periods beginning on or after 1 January 2018. We have applied HKFRS 9 in our consolidated financial statements throughout the Track Record Period. The adoption of HKFRS 9 did not have significant impact on our financial position and performance during the Track Record Period when compared to that of HKAS 39.

HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("**ECL**") for financial assets and contract assets and (iii) general hedge accounting.

The early adoption of HKFRS 16

HKFRS 16 is mandatorily effective for the annual periods beginning on or after 1 January 2019. We decided to early adopt HKFRS 16 and have applied HKFRS 16 in our consolidated financial statements throughout the Track Record Period. The adoption of HKFRS 16 did not have significant impact on our financial position and performance during the Track Record Period when compared to that of HKAS 17.

We lease various properties to operate our factory. Property leases typically have fixed periods of one to three years. Lease terms are negotiated on an individual basis and contain different terms and conditions.

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Property leases are recognised as right-of-use assets (included in property, plant and equipment) and the corresponding liabilities at the date on which the respective leased asset is available for use by our Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

SUMMARY OF RESULTS OF OPERATIONS

The following is a summary of the consolidated statements of profit or loss of our Group for the Track Record Period prepared on the basis set out in the audited financial statements as set out in the Accountants' Report of our Group contained in Appendix I to this prospectus. Potential investors should read this section in conjunction with the Accountants' Report of our Group contained in Appendix I to this prospectus and not merely rely on the information contained in this section.

	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000	3M2019 RMB'000 (unaudited)	3M2020 RMB'000
Revenue	138,269	177,548	206,169	48,239	26,636
Cost of sales	<u>(79,572)</u>	<u>(107,575)</u>	<u>(125,414)</u>	<u>(27,430)</u>	<u>(15,055)</u>
Gross Profit	58,697	69,973	80,755	20,809	11,581
Other income	1,343	1,753	1,919	264	301
Other gains and (losses)	(2,017)	110	939	(275)	522
Selling and distribution costs	(7,139)	(8,397)	(9,021)	(1,640)	(2,264)
Administrative and other operating expenses	(16,413)	(15,744)	(23,376)	(3,557)	(2,916)
Research and development expenses	(6,111)	(5,362)	(6,240)	(1,310)	(900)
Listing expenses	–	(1,405)	(11,444)	(1,052)	(1,850)
Finance costs	<u>(280)</u>	<u>(220)</u>	<u>(684)</u>	<u>(163)</u>	<u>(150)</u>
Profit before income tax	28,080	40,708	32,848	13,076	4,324
Income tax expense	<u>(6,054)</u>	<u>(8,438)</u>	<u>(6,919)</u>	<u>(2,378)</u>	<u>(1,521)</u>
Profit for the year/period	<u>22,026</u>	<u>32,270</u>	<u>25,929</u>	<u>10,698</u>	<u>2,803</u>
Profit for the year/period attributable to:					
Equity holders of the Company	13,899	20,696	18,184	6,406	2,776
Non-controlling interests	<u>8,127</u>	<u>11,574</u>	<u>7,745</u>	<u>4,292</u>	<u>27</u>
	<u>22,026</u>	<u>32,270</u>	<u>25,929</u>	<u>10,698</u>	<u>2,803</u>

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Non-HKFRS measures

In addition to the HKFRS measures in our consolidated financial statements, we also use the non-HKFRS financial measures of adjusted profit (excluding Listing expenses), adjusted return on equity and adjusted return on total assets to evaluate our operating performance. We believe that these non-HKFRS measures provide useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods.

The following table sets forth our unaudited adjusted profit for the year/period after excluding the effect of the listing expenses:

	FY2017	FY2018	FY2019	3M2019	3M2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Profit for the year/period	22,026	32,270	25,929	10,698	2,803
Add: Listing expenses	—	1,405	11,444	1,052	1,850
	<u>22,026</u>	<u>33,675</u>	<u>37,373</u>	<u>11,750</u>	<u>4,653</u>

Adjusted profit for the year/period is not a financial measure under the HKFRS and is presented to provide information for evaluation and comparison of our financial results during the Track Record Period.

Although these financial measures are reconcilable to the line items in the consolidated financial statements, they should not be considered measures comparable to items in the consolidated financial statements in accordance with the HKFRS. These measures may not be comparable to other similarly titled measures used by other companies.

DESCRIPTION AND ANALYSIS OF PRINCIPAL COMPONENTS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

Our businesses comprise principally three segments, namely (i) cleanroom wall and ceiling systems, (ii) cleanroom equipment and (iii) others. During the Track Record Period and up to the Latest Practicable Date, we principally generated our revenue from (i) manufacturing and providing installation services for cleanroom wall and ceiling system products (including cleanroom doors and windows) and (ii) manufacturing and sale of cleanroom equipment (including mainly fan filter units, air showers, pass boxes, HEPA boxes and clean booths/benches). Our cleanroom wall and ceiling systems are generally manufactured and sold under our “Channel Systems” brand, while our cleanroom equipment are generally manufactured and sold under our “Micron” brand. Ancillary to our major business in supplying cleanroom wall and ceiling systems and cleanroom equipment, we also trade cleanroom equipment of third-party brands (mainly raised floor systems) and provide cleanroom preventive maintenance services, which represented approximately 5.0% to 10.9% of our revenue during the Track Record Period.

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During the Track Record Period, our revenue amounted to approximately RMB138.3 million, RMB177.5 million, RMB206.2 million and RMB26.6 million for FY2017, FY2018, FY2019 and 3M2020, respectively.

Revenue by nature of contracts

During the Track Record Period, we generate our revenue from cleanroom projects and sales of goods. For cleanroom projects, we are engaged as a cleanroom products supplier on a project basis with installation service, and recognise our revenue based on completion ratio of the projects. For sales of goods (whether for walls and ceilings or equipment and without installation service), the revenue generated are recognised at a point in time.

Set out below is the breakdown of our revenue by nature of contract during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Cleanroom projects	54,534	39.4	99,245	55.9	142,736	69.2	33,483	69.4	17,360	65.2
Sales of goods	83,735	60.6	78,303	44.1	63,433	30.8	14,756	30.6	9,276	34.8
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Revenue by business segment

The following table sets forth a breakdown of our revenue by business segment during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Cleanroom wall and ceiling systems	118,341	85.6	151,291	85.2	177,258	86.0	41,848	86.8	22,952	86.2
Cleanroom equipment	13,056	9.4	16,904	9.5	14,536	7.0	3,738	7.7	781	2.9
Others	6,872	5.0	9,353	5.3	14,375	7.0	2,653	5.5	2,903	10.9
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Note:

Others represents revenue from our ancillary businesses including trading of cleanroom equipment of third party brands and provision of cleanroom preventive maintenance service.

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Cleanroom wall and ceiling systems

Our cleanroom wall and ceiling systems products mainly comprise wall, ceiling, doors and windows. For FY2017, FY2018, FY2019 and 3M2020, revenue of cleanroom wall and ceiling systems contributed approximately RMB118.3 million, RMB151.3 million, RMB177.3 million and RMB23.0 million, or approximately 85.6%, 85.2%, 86.0% and 86.2% of our total revenue, respectively.

The following table sets forth the geographical breakdown of our revenue of cleanroom wall and ceiling systems⁽¹⁾ during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
The PRC	56,101	47.4	95,980	63.4	110,947	62.6	34,337	82.1	10,412	45.4
Malaysia	27,977	23.6	25,249	16.7	43,396	24.5	810	1.9	2,638	11.5
Singapore	17,166	14.5	14,471	9.6	9,773	5.5	2,863	6.8	7,767	33.8
Philippines	9,260	7.8	9,448	6.2	7,402	4.2	2,230	5.3	–	0.0
Others ⁽²⁾	7,837	6.7	6,143	4.1	5,740	3.2	1,608	3.9	2,135	9.3
Total	118,341	100.0	151,291	100.0	177,258	100.0	41,848	100.0	22,952	100.0

Notes:

1. The geographical breakdown is based on the locations at which the services were provided or the goods delivered.
2. "Others" includes various countries and locations in Hong Kong, Thailand, Vietnam, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

Segment revenue from cleanroom wall and ceiling systems primarily consists of product costs and service fees in respect of our supply of wall and ceiling systems products and provision of installation services. The segment revenue from cleanroom wall and ceiling systems depends on and is primarily driven by the number, size, location and types of projects involved, nature of products and services to be provided and stage of completion of the projects which affects the timing of recognition of our revenue.

In FY2018, our revenue from cleanroom wall and ceiling systems increased by approximately RMB33.0 million or 27.8% as compared to FY2017. It was mainly driven by the growth we experienced in the PRC market. In FY2018, our sales in the PRC increased by approximately RMB39.9 million or 71.1% as compared to FY2017. The substantial growth in the PRC market was mainly derived from the semiconductor industry. This is consistent with "Made in China 2025" Guideline target, as stated in the F&S Report, that the PRC domestic production level of semiconductors is expected to increase to 40% by 2020 and further to 70% by 2025, which results in more investment and hence greater demand for cleanroom facility products in the semiconductor industry. According to Frost & Sullivan, the "Made in China 2025" Guideline was issued by the Chinese Government in 2015, when the domestic production volume of integrated circuits accounted for about 26% of total supply in the PRC, while imported integrated

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circuits accounted for the remaining 74% of total supply in the PRC. During FY2018, we undertook a number of sizable contracts. Total revenue derived from these contracts amounted to approximately RMB83.0 million in FY2018, representing approximately 86.4% of our revenue from the PRC or approximately 54.8% of our total revenue of the cleanroom wall and ceiling systems in FY2018.

These sizeable contracts we undertook in the PRC in FY2018 included:

- (a) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant in Dalian, the PRC for a semiconductor chip manufacturer, from which revenue generated for FY2018 amounted to approximately RMB33.7 million, representing approximately 22.3% of our total cleanroom wall and ceiling systems revenue for FY2018;
- (b) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant in Shanghai, the PRC for an integrated circuit manufacturer, from which revenue generated for FY2018 amounted to approximately RMB17.9 million, representing approximately 11.9% of our total cleanroom wall and ceiling systems revenue for FY2018;
- (c) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant in Tianjin, the PRC for a semiconductor products manufacturing and trading company, from which revenue generated for FY2018 amounted to approximately RMB10.7 million, representing approximately 7.1% of our total cleanroom wall and ceiling systems revenue for FY2018;
- (d) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant in Wuhan, the PRC for a memory products manufacturer, from which revenue generated for FY2018 amounted to approximately RMB10.6 million, representing approximately 7.0% of our total cleanroom wall and ceiling systems revenue for FY2018;
- (e) a contract from a new customer to supply cleanroom wall and ceiling systems products with installation services for building a wafer fabrication plant in Wuhan, the PRC for a semiconductor R&D and manufacturing company, from which revenue generated for FY2018 amounted to approximately RMB6.9 million, representing approximately 4.6% of our total cleanroom wall and ceiling systems revenue for FY2018; and
- (f) a contract to supply cleanroom wall and ceiling systems products with installation services for the construction of a wafer fabrication plant in Beijing, the PRC for a semiconductor products manufacturing and trading company, from which revenue generated for FY2018 amounted to approximately RMB3.0 million, representing approximately 2.0% of our total cleanroom wall and ceiling systems revenue for FY2018.

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In addition, we undertook the following substantial order in Malaysia in FY2018:

- (a) an order to supply cleanroom wall and ceiling system products for the setting up a cleanroom facility in Penang, Malaysia for a hard disk drive manufacturer, from which revenue generated for FY2018 amounted to approximately RMB13.3 million, representing approximately 8.8% of our total cleanroom wall and ceiling systems revenue for FY2018.

For FY2019, our sales of cleanroom wall and ceiling systems increased by approximately RMB26.0 million or 17.2% as compared with FY2018. In FY2019, we experienced growth in both Malaysia and the PRC markets. Our sales in Malaysia and the PRC increased by approximately RMB18.1 million or 71.9%, and approximately RMB15.0 million or 15.6%, respectively, as compared to FY2018.

Whilst the demand for our wall and ceiling systems in PRC continued to grow in FY2019, we saw a surge in investment in Southeast Asia from global facility owners. The Directors believe that the demand from global facility owners will continue to grow in 2020 and 2021 despite the temporary slowdowns in first quarter in 2020 due to the COVID-19 outbreak. For the details of the Potential SEA Wall and Ceiling Contracts in 2020 and 2021, please see the paragraph headed “Business — Our Strategies — Strategies for the Southeast Asian Market — Expand and relocate our production facility in Malaysia to cater for our growth in Southeast Asia and other countries”. During FY2019, we undertook a number of sizeable contracts in Malaysia and the PRC as listed out below. The revenue derived from these contracts amounted to approximately RMB99.8 million in FY2019 representing approximately 56.4% of our total revenue of the cleanroom wall and ceiling systems in FY2019.

The more sizable contracts we undertook in the PRC in FY2019 included:

- (a) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant in Wuxi, the PRC for a semiconductor products manufacturing and trading company, from which revenue generated for FY2019 amounted to approximately RMB28.2 million, representing approximately 15.9% of our total cleanroom wall and ceiling systems revenue for FY2019;
- (b) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant in Shanghai, the PRC for a semiconductor products manufacturing and trading company, from which revenue generated for FY2019 amounted to approximately RMB20.1 million, representing approximately 11.4% of our total cleanroom wall and ceiling systems revenue for FY2019;
- (c) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a monocrystalline silicon material manufacturing facility in Hohhot, the PRC for a semiconductor devices manufacturer, from which revenue generated for FY2019 amounted to approximately RMB12.7 million, representing approximately 7.2% of our total cleanroom wall and ceiling systems revenue for FY2019; and

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- (d) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a wafer manufacturing facility in Xuzhou, the PRC for a semiconductor R&D and manufacturing company, from which revenue generated for FY2019 amounted to approximately RMB11.3 million, representing approximately 6.4% of our total cleanroom wall and ceiling systems revenue for FY2019.

In addition, we undertook the following substantial contract in Malaysia in FY2019:

- (a) a contract to supply cleanroom wall and ceiling system products for a new cleanroom facility project in Malaysia of a U.S. semiconductor company, which was founded in the USA, and is principally engaged in the design and manufacturing of computer components and offering of computing, networking, data storage and communications solutions. Its shares are listed on the NASDAQ Stock Market with a market capitalisation of over USD200 billion as at the Latest Practicable Date, and is ranked within the top 50 companies on the Fortune 500 list. The revenue generated from this project for FY2019 amounted to approximately RMB27.5 million, representing approximately 15.5% of our total cleanroom wall and ceiling systems revenue for FY2019.

For 3M2020, our revenue from cleanroom wall and ceiling systems decreased by approximately RMB18.9 million or 45.2% as compared to 3M2019. It is mainly due to the significant decline in revenue in the PRC market of approximately RMB23.9 million or 69.7%. For PRC, due to the extended Lunar New Year Holiday, the lockdown and quarantine measures under COVID-19, many of our staff and subcontractors were unable to work on the project sites since around mid-January 2020 and until around mid-March 2020, which severely affected our revenue of cleanroom wall and ceiling systems from the PRC during 3M2020. For revenue of cleanroom wall and ceiling systems from non-PRC markets, we were able to record an increase of approximately RMB5.0 million in 3M2020 as compared to 3M2019 due to the recognition of engineering service income of approximately RMB6.5 million from our data centre facility project in Singapore, which represented approximately 28.2% of our total cleanroom wall and ceiling systems revenue for 3M2020. As at 1 January 2020, the contract value of our cleanroom projects is RMB81.3 million, which represented an increase of 73.6%, as compared to that as at 1 January 2019. Therefore, our decline in revenue was mainly due to suspensions of operations and projects due to COVID-19 instead of decline in demand for our products. Although our operations and projects had experienced suspension and delays due to COVID-19, none of our projects and contracts have been terminated or aborted, nor have any of our customers expressed an intention to terminate or abort our projects and contracts, as a result of the outbreak of COVID-19. We are resuming our business operations to the extent permissible under the applicable government regulations, and have been in the progress of completing our ongoing projects and contracts. As such, based on the foregoing, our Directors are confident that we can complete the ongoing projects based on the schedules as agreed with the customers from time to time. For details of the impact of COVID-19 on our operations and on-going projects, please refer to the paragraph headed “Business — Recent Outbreak of COVID-19”.

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Cleanroom Equipment

Our cleanroom equipment mainly comprises fan filter units, air showers and pass boxes. For FY2017, FY2018, FY2019 and 3M2020, sales of cleanroom equipment contributed approximately RMB13.1 million, RMB16.9 million, RMB14.5 million and RMB0.8 million, or approximately 9.4%, 9.5%, 7.0% and 2.9% of our total revenue, respectively.

During the Track Record Period and as at the Latest Practicable Date, we only manufactured cleanroom equipment in Malaysia. The major market of our cleanroom equipment is Malaysia and the Philippines. The demand for cleanroom equipment is mainly driven by (i) new projects for building new cleanroom facilities, (ii) modification or upgrading of existing cleanroom facilities, and (iii) replacement of cleanroom equipment consumable such as high efficiency filters which need to be replaced every 2 to 3 years depending on their utilisation. The demand for cleanroom equipment fluctuates from year to year, depending on the demand from different sectors and locations, and development or expansion plan of the facilities owners and the corresponding timeline. With our proven track record, solid business relationship with customers, and the replacement need for cleanroom facilities in Malaysia (according to the F&S Report, Malaysia had been a manufacturing hub since 1990s), our Directors believe that segment revenue from cleanroom equipment will have a steady demand.

The following table sets forth the geographical breakdown of our revenue of cleanroom equipment⁽¹⁾ during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Malaysia	6,041	46.3	12,234	72.4	7,029	48.4	602	16.1	209	26.8
Philippines	5,421	41.5	4,063	24.0	6,297	43.3	3,068	82.1	536	68.6
Thailand	1,359	10.4	469	2.8	146	1.0	–	0.0	–	0.0
Others ⁽²⁾	235	1.8	138	0.8	1,064	7.3	68	1.8	36	4.6
Total	13,056	100.0	16,904	100.0	14,536	100.0	3,738	100.0	781	100.0

Note:

1. The revenue breakdown is based on the locations at which the services were provided or the goods delivered.
2. Others include various countries and locations in Vietnam, Bangladesh and continental Europe.

Our sales of cleanroom equipment increased by approximately RMB3.8 million or 29.5% for FY2018 as compared with FY2017, primarily due to an order (the “**2018 Order**”) for a semiconductor assembly and test services provider in Malaysia, for which we supplied approximately 650 fan filter units and cleanroom equipment such as air showers and clean booths, from which revenue generated for FY2018 amounted to approximately RMB6.0 million, representing approximately 35.5% of our total cleanroom equipment revenue for FY2018.

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Our sales of cleanroom equipment decreased by approximately RMB2.4 million or 14.0% for FY2019 as compared with FY2018, primarily due to the decline in sales of cleanroom equipment in Malaysia. However, if we exclude the 2018 Order, sales in Malaysia in FY2019 actually increased by approximately RMB0.8 million and the overall sales of cleanroom equipment in FY2019 would have increased by approximately RMB3.6 million, representing approximately 33.3% of the adjusted sales of approximately RMB10.9 million in FY2018.

Our sales of cleanroom equipment, especially for Philippines, decreased by approximately RMB3.0 million or 79.1% for 3M2020 as compared with 3M2019 as due to delay in contracts and drop in new orders as a result of COVID-19. As at the Latest Practicable Date, we had contracts with an aggregate contract value for cleanroom equipment of approximately RMB4.7 million, for which revenue had not been recognised during the Track Record Period, representing 32.5% of the revenue from cleanroom equipment for FY2019. We are resuming our business operations to the extent permissible under the applicable government regulations, and have been in the progress of completing our ongoing projects and contracts.

Others

During the Track Record Period, we had also engaged in ancillary business such as trading of cleanroom equipment and components (mainly raised floor systems) and provision of cleanroom preventive maintenance services. Revenue from raised floor systems is the major component of the segment revenue from ancillary business, representing approximately 48.4%, 58.1%, 62.5% and 75.2% of the revenue from ancillary business for FY2017, FY2018, FY2019 and 3M2020, respectively. The demand for raised floor systems is partly driven by the replacement need of cleanroom facilities, and partly driven by new cleanroom projects. For FY2017, FY2018, FY2019 and 3M2020, our segment revenue from ancillary business contributed approximately RMB6.9 million, RMB9.4 million, RMB14.4 million and RMB2.9 million, or approximately 5.0%, 5.3%, 7.0% and 10.9% of our total revenue, respectively.

Our segment revenue from ancillary business increased by approximately RMB2.5 million or 36.1% for FY2018 as compared with FY2017, which was primarily due to the increase in demand for replacement and upgrading of their raised floor system.

Our segment revenue from ancillary business substantially increased by approximately RMB5.0 million or 53.7% for FY2019 as compared with FY2018, primarily due to the increase in demand for replacement and upgrading of their raised floor system.

Our segment revenue from ancillary business remained relatively stable at approximately RMB2.7 million and RMB2.9 million for 3M2019 and 3M2020, respectively.

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Revenue by application of our products and services

The following table sets forth a breakdown of our revenue by application of our products and services during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Semiconductor	120,975	87.5	162,755	91.7	197,398	95.8	43,662	90.5	17,971	67.5
Pharmaceutical	14,508	10.5	5,236	2.9	5,230	2.5	1,478	3.1	618	2.3
Others	2,786	2.0	9,557	5.4	3,541	1.7	3,099	6.4	8,047	30.2
Total	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Notes:

1. Our customers requiring semiconductor standard cleanroom products mainly include manufacturers of semiconductors and electronic products such as LED/LCD display.
2. Our customers requiring pharmaceutical standard cleanroom products mainly include manufacturers of pharmaceutical, biotechnology and nutritional products and medical institutions.
3. Others include data centres, academic institutions and automotive industries.

For FY2017, FY2018, FY2019 and 3M2020, our revenue was predominantly generated from the semiconductor industry, representing approximately 87.5%, 91.7%, 95.8% and 67.5% of our total revenue, respectively. As mentioned above, the growth in revenue from FY2017 to FY2019 was mainly derived from the semiconductor industry in the PRC and Malaysia market. The revenue derived from the semiconductor industry for 3M2020 decreased by approximately RMB25.7 million or 58.8% as compared with 3M2019 mainly due to the substantial decline in revenue in PRC due to the disruption of our operations and projects as a result of COVID-19. Please refer to the paragraph above headed "Revenue by business segment" in this section for details.

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Revenue by geographical location

The following table sets forth a geographical breakdown of our revenue, based on the locations at which the services were provided or the goods delivered during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
The PRC	56,101	40.6	95,980	54.1	110,947	53.8	34,337	71.2	10,412	39.1
Malaysia	35,400	25.6	39,138	22.0	51,504	25.0	1,692	3.5	3,063	11.5
Philippines	20,089	14.5	21,191	11.9	25,703	12.5	7,671	15.9	1,406	5.3
Singapore	17,166	12.4	14,471	8.2	11,008	5.3	2,863	5.9	7,768	29.2
Others	9,513	6.9	6,768	3.8	7,007	3.4	1,676	3.5	3,987	14.9
	138,269	100.0	177,548	100.0	206,169	100.0	48,239	100.0	26,636	100.0

Notes: "Others" includes various countries and locations in Hong Kong, Thailand, Vietnam, Bangladesh, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

During the Track Record Period, our revenue was predominantly generated from the PRC, Malaysia, the Philippines and Singapore. Revenue from the PRC, Malaysia, the Philippines and Singapore together represented approximately 93.1%, 96.2%, 96.6% and 85.1% of our total revenue for FY2017, FY2018, FY2019 and 3M2020, respectively. The increase in our revenue from FY2017 to FY2018 was mainly driven by the increase in revenue from the PRC, which was in turn mainly attributable to the demand arising from the significant increase in investment in the semiconductor industry in the PRC. For FY2019, our increase in revenue as compared to FY2018 was mainly driven by the increase in demand from semiconductor industry for both PRC and Southeast Asia markets.

From FY2017 to FY2019, we experienced uninterrupted growth in revenue in the PRC market. Demand for our products continued to increase as we believe and according to the F&S Report, PRC is stepping up its investment in the semiconductor industry domestically in order to reduce its reliance on import of semiconductor. In FY2019, we undertook a sizeable contract in Malaysia, supplying wall and ceiling system products for a new cleanroom facility project for a U.S. leading semiconductor company. The revenue we generated from this project in FY2019 amounted to approximately RMB27.5 million, representing 53.3% of our revenue in Malaysia for FY2019. This explains our substantial growth in Malaysia market in FY2019. In addition, we were also awarded a contract in December 2019 for a mega data centre facility in Singapore for a leading online social media and social networking service company with a contract sum of approximately RMB42.6 million. For 3M2020, our revenue dropped by approximately RMB21.6 million, or 44.8%, mainly due to the substantial decline in revenue in PRC which was attributable to the disruption of our operations and projects as a result of COVID-19. Please refer to the paragraph above headed "Revenue by business segment" in this section for details. The Directors believe that the demand from global facility owners will continue to grow in Southeast Asia in 2020 and 2021 despite the temporary slowdowns in first quarter of 2020 due to the COVID-19 outbreak.

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Cost of sales

For FY2017, FY2018, FY2019 and 3M2020, our cost of sales was approximately RMB79.6 million, RMB107.6 million, RMB125.4 million and RMB15.1 million, respectively. Our cost of sales comprised mainly direct materials, direct labour, manufacturing overhead and subcontracting expenses. The following table sets out a breakdown of our cost of sales during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Direct materials	51,275	64.4	62,408	58.0	83,194	66.3	19,975	72.8	7,119	47.3
Direct labour	4,353	5.5	4,904	4.6	4,883	3.9	1,137	4.2	1,076	7.1
Manufacturing overhead	12,516	15.7	12,321	11.4	11,654	9.3	2,531	9.2	2,598	17.3
Subcontracting expenses	11,428	14.4	27,942	26.0	25,683	20.5	3,787	13.8	4,262	28.3
Total	79,572	100.0	107,575	100.0	125,414	100.0	27,430	100.0	15,055	100.0

Our direct material costs mainly represented the costs of materials utilised in our production. For FY2017, FY2018, FY2019 and 3M2020, our material costs amounted to approximately RMB51.3 million, RMB62.4 million, RMB83.2 million and RMB7.1 million, respectively. The following sets out a breakdown of our cost of direct materials during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Components for cleanroom	16,105	31.4	28,920	46.3	39,154	47.1	8,066	40.4	2,378	33.4
Aluminium	20,074	39.2	19,254	30.9	21,078	25.3	5,578	27.9	2,475	34.8
Steel coil	11,951	23.3	12,063	19.3	17,773	21.4	5,072	25.4	913	12.8
Trading items	3,145	6.1	2,171	3.5	5,189	6.2	1,259	6.3	1,353	19.0
Total	51,275	100.0	62,408	100.0	83,194	100.0	19,975	100.0	7,119	100.0

Costs for components for cleanroom mainly comprised the costs of (i) semi-finished wall and ceiling panels for our further processing and (ii) components such as blowers and motors for our production of equipment. In addition to the components for cleanroom, aluminium and steel coil are our major raw materials used in our production. Components for cleanroom increased from approximately RMB16.1 million for FY2017 to approximately RMB39.2 million for FY2019, because we bought more semi-finished wall and ceiling panels for further processing to meet our production needs in the PRC. Components for cleanroom decreased from approximately RMB8.1 million for 3M2019 to approximately RMB2.4 million for 3M2020. Due to suspension in our operations and on-going projects as a result of the lockdown measures and transportation restrictions as a result of COVID-19, our demand for components for cleanroom declined which is in line with the drop in revenue for 3M2020.

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Our direct labour cost consisted of employee benefit expenses for our production staff. The increase in direct labour cost from FY2017 to FY2018 was mainly attributable to the increase in our headcount to support our business growth and increase in labour wages. The direct labour costs remained stable at approximately RMB4.9 million in FY2019 as compared to FY2018. The direct labour costs remained the same at approximately RMB1.1 million for both 3M2019 and 3M2020 despite the decline in revenue in 3M2020 as our direct labour costs are relatively fixed in nature. Therefore, our direct labour costs as a percentage to our revenue increased to approximately 4.0% during 3M2020.

Our manufacturing overhead cost primarily included, transportation and freight charges, processing and material expenses, sales tax and depreciation expenses. The increase in manufacturing overhead cost from FY2017 to FY2018 was mainly attributable to the increase in transportation and freight charges. Our manufacturing overhead cost decreased by 5.4% or RMB0.7 million in FY2019 as compared to FY2018. This is mainly attributable to the decrease in product export tax of approximately RMB0.6 million. Our manufacturing overhead cost remained stable at approximately RMB2.5 million for 3M2019 and approximately RMB2.6 million for 3M2020 despite the decline in revenue in 3M2020 as our manufacturing overhead cost are relatively fixed in nature. Therefore, our manufacturing overhead cost as a percentage to our revenue increased to approximately 9.8% during 3M2020.

Our subcontracting expenses represented fees paid and payable to subcontractors engaged to carry out installation work of our projects. The increase in subcontracting expenses from FY2017 to FY2018 was mainly due to the increase in installation works outsourced to subcontractors as a result of the growth in our business as illustrated by the increase in our revenue as discussed above, in particular as we undertook more sizeable contracts which required our installation services. Despite revenue from cleanroom projects grew further in FY2019, we were required to carry out less installation work in our contracts and hence our subcontracting expenses decreased by approximately 8.1% or RMB2.3 million in FY2019 as compared to FY2018 due to lower demand for installation work in our contracts. The subcontracting expenses increased by approximately RMB0.5 million, or 12.5%, from approximately RMB3.8 million for 3M2019 to approximately RMB4.3 million for 3M2020 mainly due to the installation works for a sizeable contract in Malaysia, supplying wall and ceiling system products for a new cleanroom facility project for a U.S. leading semiconductor company.

Given our direct material costs and subcontracting expenses contributed a significant part of our cost of sales during the Track Record Period, our ability to accurately estimate our direct material costs and subcontracting expenses for the inclusion of our tenders or quotations will affect our profitability. As the cost structure of each of our contracts or orders varies, and is subject to factors such as, scope of works, schedule of works, manpower requirement and availability of our operational and financial resources, the composition of our overall direct costs would fluctuate from year to year.

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Gross profit and gross profit margin

Our gross profit amounted to approximately RMB58.7 million, RMB70.0 million, RMB80.8 million and RMB11.6 million for FY2017, FY2018, FY2019 and 3M2020, representing gross profit margin of approximately 42.5%, 39.4%, 39.2% and 43.5%, respectively.

The following table sets forth the analysis of gross profit with respective gross profit margins by our business segments during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	Gross Gross profit margin	Gross profit margin	Gross Gross profit margin	Gross profit margin	Gross Gross profit margin	Gross profit margin	Gross profit margin	Gross Gross profit margin	Gross profit margin	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Cleanroom wall and ceiling systems	51,287	43.3	58,240	38.5	70,366	39.7	18,711	44.7	10,538	45.9
Cleanroom equipment	4,911	37.6	7,638	45.2	4,959	34.1	1,266	33.9	92	11.8
Others	2,499	36.4	4,095	43.8	5,430	37.8	832	31.4	951	32.8
Total	58,697	42.5	69,973	39.4	80,755	39.2	20,809	43.1	11,581	43.5

Note:

Others represents revenue from our ancillary businesses including trading of cleanroom equipment of third party brands and provision of cleanroom preventive maintenance service.

The following table sets forth a geographical breakdown of our gross profit, based on the locations at which the services were provided or the goods delivered during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	Gross Gross profit margin	Gross profit margin	Gross Gross profit margin	Gross profit margin	Gross Gross profit margin	Gross profit margin	Gross profit margin	Gross Gross profit margin	Gross profit/ profit/ (loss) margin	Gross profit/ (loss) margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
The PRC	27,326	48.7	37,007	38.6	43,632	39.3	15,780	46.0	3,204	30.8
Malaysia	13,505	38.1	17,572	44.9	21,998	42.7	663	39.2	(518)	(16.9)
Philippines	6,102	30.4	7,362	34.7	8,802	34.2	2,691	35.1	505	35.9
Singapore	8,612	50.2	6,212	42.9	3,810	34.6	1,016	35.5	6,930	89.2
Others	3,152	33.1	1,820	26.9	2,513	35.9	659	39.3	1,460	36.6
Total	58,697	42.5	69,973	39.4	80,755	39.2	20,809	43.1	11,581	43.5

Note: "Others" includes various countries and locations in Hong Kong, Thailand, Vietnam, Bangladesh, the United Kingdom, continental Europe and the Middle East (being Kuwait and Saudi Arabia).

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Gross profit

Our gross profit increased by approximately RMB11.3 million or 19.2% for FY2018 as compared with FY2017. Such increase was mainly attributable to the increase in gross profit from sales of cleanroom wall and ceiling systems and cleanroom equipment of approximately RMB7.0 million and RMB2.7 million, respectively.

Our gross profit increased by approximately RMB10.8 million or 15.4% for FY2019 as compared with FY2018. The increase was mainly attributable to the increase in gross profit from sales of cleanroom wall and ceiling systems of approximately RMB12.1 million, which is partially offset by the drop in gross profit from sales of cleanroom equipment of RMB2.7 million.

Our gross profit decreased by approximately RMB9.2 million or 44.3% for 3M2020 as compared with 3M2019. The decrease was mainly attributable to the decrease in gross profit from sales of cleanroom wall and ceiling of approximately RMB9.6 million as a result of the decrease in revenue in the PRC market.

In terms of margin, the gross profit margin of approximately 43.5% for 3M2020, although is relatively similar to the 43.1% gross profit margin achieved for 3M2019, is higher than the 39.2% gross profit margin for FY2019. In fact, our margin during 3M2020 was adversely affected by the impact of COVID-19. During 3M2020, our operations in the PRC, Malaysia and Philippines and our projects were temporarily suspended as a result of the lockdown measures and transportation restrictions imposed by the various governments due to COVID-19. For details, please see the paragraph headed “Recent Outbreak of COVID-19” in the “Summary” section. Because of these lockdown measures and suspension of our projects, we recorded a substantially lower revenue for 3M2020 as compared to the revenue for 3M2019 and suffered a lower operational efficiency, which adversely impacted our gross profit margin. As illustrated in the above table, the gross profit margins in PRC and Malaysia for 3M2020 dropped to approximately 30.8% and (16.9)% respectively as compared to those of approximately 46.0% and 39.2% for 3M2019 or approximately 39.3% and 42.7% for FY2019, respectively. Despite substantially lower margins in the PRC and Malaysia, we were able to achieve an overall margin of approximately 43.5%, which is higher than the 39.2% margin achieved for FY2019 because during 3M2020 we recorded a high gross profit margin of approximately 89.2% from Singapore which is mainly attributable to an engineering service income of approximately RMB6.5 million, representing approximately 24.3% of the total revenue of the Group for 3M2020 that involved minimal direct costs as further explained below.

The engineering service fee was derived from the data centre facility project in Singapore with a total contract sum of RMB42.6 million and represented the Group’s engineering proposal and product design work for this project. In this project, it was the first time that our insulated honeycomb products (one of our cleanroom wall and ceiling products) were used as “air discharge chimney”. Therefore, before successfully securing the purchase order, we spent many engineering resources in FY2018 and FY2019 to conduct product and structural research, engineering trial, discussion and continual engineering ratification review with the engineering teams of the customer and the facility owner, carrying out third party test and certification, construction of full mock up chimney to conduct, among other tests, pressure test and wind turbulence test. The technology developed for this data facility project can be utilised by the Company on other cleanroom projects with similar requirements including projects which require similar air discharge chimney or exceptionally tall panels. According to the customer’s purchase order, we were entitled to receive such engineering service fee when the Group completed and

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the customer were satisfied with the engineering proposal and product design and a third party test and certification on the full mock up sample. Before the purchase order was secured from the customer in mid-December 2019, despite that we had committed many resources on engineering trial and structural and product design, it was not certain at the time whether we would be able to finally satisfy the requirements of the customer and ultimately the facility owner and be able to secure the purchase order at the end. Therefore, the costs incurred prior to the obtaining of the purchase order, which mainly includes material costs, staff costs and travelling expenses, were recognised as expense upon incurred in FY2018 and FY2019 until the purchase order was secured.

More importantly, we attribute our ability to successfully come up with the products and the structural design which satisfied the facility owner's special requirements to our accumulated 30 years of experience in construction of cleanroom facilities for various industries and its valuable technical expertise of cleanroom products, which cannot be quantified. As the work involved related to engineering proposal and product design work only involved direct costs for the mock up sample, the Group was able to achieve a relatively higher profit margin for this engineering service.

Gross profit margin

Cleanroom wall and ceiling systems

For FY2017, FY2018, FY2019 and 3M2020, our gross profit from cleanroom wall and ceiling systems amounted to approximately RMB51.3 million, RMB58.2 million, RMB70.4 million and RMB10.5 million, respectively, and our gross profit margin of this business segment was approximately 43.3%, 38.5%, 39.7% and 45.9% for the corresponding periods.

During the Track Record Period, our gross profit margin of cleanroom wall and ceiling systems varied among contracts and it depended on a number of factors, including (i) the nature and complexity of the contracts that we undertook; (ii) our pricing strategy which affects our targeted profit margin; (iii) the progress of contracts during the relevant financial year; and (iv) our cost control and management. It is our Directors' objective to maximise gross profit margin for each contract and to attain a relatively stable profit margin for each financial year.

Our gross profit margin of the cleanroom wall and ceiling systems segment decreased from approximately 43.3% for FY2017 to approximately 38.5% for FY2018, mainly attributable to the decrease in gross profit margin of the installation services, which has decreased from approximately 34.5% for FY2017 to approximately 19.0% for FY2018. We lowered our profit margin for installation services in FY2018 because our Directors considered that our ability to secure sizeable contracts with installation services would enhance our reputation and job references in the PRC market and shall be beneficial to us in competing for other sizeable contracts with similar scale from other contract owners in the future. Excluding the contribution from installation services, we recorded a gross profit margin of approximately 44.2% and 43.7% for FY2017 and FY2018, respectively. Furthermore, as mentioned above, we bought more semi-finished wall and ceiling panels for further processing to meet our production needs in the PRC in FY2018, resulting a higher cost of goods sold as a percentage of sales and hence a lower gross profit margin.

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Our gross profit margin of cleanroom wall and ceiling systems increased from approximately 38.5% in FY2018 to approximately 39.7% in FY2019, mainly attributable to several contracts with total revenue recognised for FY2019 of approximately RMB28.2 million generating higher-than-average gross profit margins ranging from approximately 41.9% to 60.3% due to last minute changes in cleanroom layout.

As explained under the paragraph headed “Gross Profit” above, our gross profit margin for cleanroom wall and ceilings for 3M2020 was adversely affected by the lockdown and transportation restriction measures imposed by various governments due to COVID-19, which resulted in suspension of our operations and our ongoing projects. However, we were able to achieve an overall relatively higher gross profit margin during 3M2020, as we recorded a high gross profit margin of approximately 89.2% from Singapore which is mainly attributable to an engineering service income from the data centre facility project in Singapore that involved minimal direct costs as further explained in the paragraph “Gross profit” above.

Cleanroom equipment

For FY2017, FY2018, FY2019 and 3M2020, our gross profit for cleanroom equipment amounted to approximately RMB4.9 million, RMB7.6 million, RMB5.0 million and RMB92,000, respectively. Our gross profit margin for cleanroom equipment was approximately 37.6%, 45.2%, 34.1% and 11.8% for the corresponding periods.

During the Track Record Period, the gross profit margin of our cleanroom equipment orders varied, subject to factors such as product specifications, size of the customers’ orders, delivery timeline, relationship with customers and relevant market conditions. It is our Directors’ objective to maximise gross profit margin for each order.

Our gross profit margin of cleanroom equipment increased from approximately 37.6% for FY2017 to approximately 45.2% for FY2018 because some of the orders received for cleanroom equipment in FY2018 were more complex and had a higher gross profit margin. In particular, the estimated gross profit margin of the 2018 Order of approximately RMB6.0 million as mentioned in the paragraph “Revenue by business segment — Cleanroom equipment” above was higher at approximately 51.3% as we offered more customised cleanroom equipment to this customer.

Our gross profit margin of cleanroom equipment decreased from approximately 45.2% for FY2018 to approximately 34.1% for FY2019. The higher gross profit margin for FY2018 was due to the higher gross profit margin of the 2018 Order in FY2018 as mentioned above.

Our gross profit margin for cleanroom equipment for 3M2020 substantially declined to 11.8%. As explained above, the suspension in our operations and on-going projects under COVID-19 has lowered our revenue and thus operational efficiency. For cleanroom equipment, the drop in gross profit margin is significant as we were unable to achieve economies of scale due to the low revenue recognised for cleanroom equipment in 3M2020.

Others

For FY2017, FY2018, FY2019 and 3M2020, our gross profit for ancillary business amounted to approximately RMB2.5 million, RMB4.1 million, RMB5.4 million and RMB1.0 million, respectively, and the gross profit margin was approximately 36.4%, 43.8%, 37.8% and 32.8% respectively.

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During the Track Record Period, we traded cleanroom equipment of third-party brands (mainly raised floor systems) and provided cleanroom preventive maintenance services under our ancillary business. We supplied different types of cleanroom components to meet our customers' replacement or maintenance needs. The gross profit margin of our ancillary business varied during the Track Record Period, and was affected by factors such as product and services specifications, size of customers' orders, delivery timeline, relationship with customers and relevant market conditions.

Our gross profit margin of ancillary business increased from approximately 36.4% for FY2017 to approximately 43.8% for FY2018. Gross profit margin increased from FY2017 to FY2018 mainly because we received orders from a customer, which is a semiconductor product packaging and test services provider in the Philippines and our largest customer of the raised floor systems, from which revenue generated for FY2017 to FY2019 represented approximately 48.4% to 58.1% of our total raised floor systems revenue, for the replacement of raised floor system in FY2018 which were carried out in a more complex environment, and thus we were able to quote a higher price.

Our gross profit margin of ancillary business decreased from approximately 43.8% for FY2018 to 37.8% for FY2019. The higher gross profit margin for FY2018 was due to the higher price from the more complex orders we received from our largest customer for raised floor systems as mentioned above. The gross profit margin of approximately 37.8% for FY2019 was comparable to the margin of approximately 36.4% for FY2017.

Our gross profit margin of ancillary business remained relatively stable at approximately 31.4% and 32.8% for 3M2019 and 3M2020, respectively.

Other income

Our other income amounted to approximately RMB1.3 million, RMB1.8 million, RMB1.9 million and RMB0.3 million for FY2017, FY2018, FY2019 and 3M2020, respectively. It consisted of government grants, bank interest income and sundry income. Government grants mainly represented subsidies received by our subsidiary, Channel Systems (Shanghai), from the provincial government in the PRC as it fulfilled the conditions under the subsidy policy in Pudong area (《浦東新區「十三五」期間安商育商政策》). The following table sets out a breakdown of our other income during the Track Record Period:

	FY2017	FY2018	FY2019	3M2019	3M2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)
Government grants	559	443	596	–	38
Bank interest income	320	519	811	131	48
Sundry income	464	791	512	133	215
Total	1,343	1,753	1,919	264	301

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Other gains and losses

Our other gains and losses mainly represented exchange gain or losses during the Track Record Period. For FY2017, FY2018, FY2019 and 3M2020, we recorded net losses of approximately RMB2.0 million, net gains of approximately RMB0.1 million, net gains of approximately RMB0.9 million and net gains of approximately RMB0.5 million, respectively.

Selling and distribution expenses

The following table sets out a breakdown of our selling and distribution expenses during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Entertainment and travelling expenses	2,900	40.6	3,519	41.9	3,690	40.9	688	42.0	700	30.9
Commission paid	921	12.9	791	9.4	1,058	11.7	228	13.9	863	38.1
Logistics expenses	985	13.8	1,183	14.1	1,075	11.9	233	14.2	232	10.3
Staff costs	1,357	19.0	1,899	22.6	2,034	22.6	198	12.1	196	8.7
Depreciation expenses	420	5.9	478	5.7	488	5.4	125	7.6	132	5.8
Others ^(Note)	556	7.8	527	6.3	676	7.5	168	10.2	141	6.2
Total	7,139	100.0	8,397	100.0	9,021	100.0	1,640	100.0	2,264	100.0

Note: Others mainly included offices expenses and telecommunication expenses

Our selling and distribution expenses mainly comprised entertainment and travelling expenses, commission paid, logistics expenses for delivery of products to customers and staff costs of sales staff. For FY2017, FY2018, FY2019 and 3M2020, we incurred selling and distribution expenses of approximately RMB7.1 million, RMB8.4 million, RMB9.0 million and RMB2.3 million, respectively, representing approximately 5.2%, 4.7%, 4.4% and 8.5% of our revenue, respectively. Despite the significant decrease in revenue for 3M2020 as compared to that for 3M2019, the selling and distribution expenses for 3M2020 increased by approximately RMB0.6 million or 38.0% as compared with 3M2019 mainly due to the increase in commission paid of approximately RMB0.6 million, primarily representing a one-off special commission for a wall and ceiling system contract in Malaysia.

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Administrative and other operating expenses

The following table sets out a breakdown of our administrative and other expenses during the Track Record Period:

	FY2017		FY2018		FY2019		3M2019		3M2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Staff costs	11,820	72.0	12,074	76.7	16,238	69.5	2,724	76.6	3,037	104.1
Depreciation of property, plant and equipment	1,356	8.3	1,373	8.7	1,245	5.3	296	8.3	309	10.6
Expected credit losses, net	1,052	6.4	(1,226)	(7.8)	1,791	7.7	(102)	(2.9)	(1,128)	(38.7)
Auditors' remuneration	190	1.2	759	4.8	213	0.9	64	1.8	86	2.9
Professional fees	164	1.0	266	1.7	464	2.0	52	1.5	36	1.2
Others ^(Note)	1,831	11.1	2,498	15.9	3,425	14.6	523	14.7	576	19.9
Total	16,413	100.0	15,744	100.0	23,376	100.0	3,557	100.0	2,916	100.0

Note: Others mainly included offices expenses, registration fee, repair and maintenance and telecommunication expenses

Our administrative and other operating expenses mainly comprised of staff costs for management and operational personnel (other than sales staff), depreciation of property, plant and equipment and provision for and reversal of expected credit loss (“ECL”). The amount of ECL during the Track Record Period varied based on the provision matrix, for which the expected loss rates are based on the payment profile for sales in the past months as well as the corresponding historical credit losses during that period. For FY2017, FY2018, FY2019 and 3M2020, we incurred administrative expense of approximately RMB16.4 million, RMB15.7 million, RMB23.4 million and RMB2.9 million, respectively, representing approximately 11.9%, 8.9%, 11.3% and 10.9% of our revenue, respectively. Our administrative expenses for FY2019 increased by approximately RMB7.6 million mainly as a result of (i) the increase in staff costs of approximately RMB4.2 million due to the increase in directors' emolument, staff salaries and head count; (ii) a credit loss of approximately RMB1.8 million was incurred in FY2019 as compared to a credit loss written back of approximately RMB1.2 million in FY2018; and (iii) other expenses increased by RMB0.9 million, mainly as a result of increase in costs for upkeep of our factories of approximately RMB0.3 million and ISO registration fees of approximately RMB0.2 million. Our administrative expenses for 3M2020 decreased by approximately RMB0.6 million mainly as a result of the net reversal of expected credit losses of approximately RMB1.1 million for 3M2020 as compared to that of approximately RMB0.1 million for 3M2019. The reversal of ECL is the result of (i) the settlement of trade receivables and contract assets; and (ii) the decrease in expected loss rate for 3M2020 as compared to that for FY2019.

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Research and development expenses

Our research and development activities mainly focused on expanding our product portfolio, improving our existing products and addressing the varying customisation requests of our customers. Our research and development expenses mainly consisted of headcount expenses incurred and cost of raw materials used in research project during the Track Record Period. For FY2017, FY2018, FY2019 and 3M2020, we incurred research and development expenses of approximately RMB6.1 million, RMB5.4 million, RMB6.2 million and RMB0.9 million, respectively, representing approximately 4.4%, 3.0%, 3.0% and 3.4% of our revenue, respectively.

Listing expenses

Our listing expenses amounted to nil, approximately RMB1.4 million, RMB11.4 million and RMB1.9 million for FY2017, FY2018, FY2019 and 3M2020, respectively. Our listing expenses for FY2018, FY2019 and 3M2020 represented professional services expenses incurred and charged to the consolidated statements of profit and loss in relation to our application for the Listing.

Finance costs

Our finance costs mainly consisted of interest expenses on bank loan and interest on finance leases. For FY2017, FY2018, FY2019 and 3M2020, our finance costs were approximately RMB0.3 million, RMB0.2 million, RMB0.7 million and RMB0.2 million, respectively. Our finance costs were immaterial to us during the Track Record Period.

Income tax expense

Our income tax expense primarily consists of the current income tax at the statutory rates applicable to our assessable profit before taxation as determined under relevant laws and regulations in Malaysia, the PRC and Philippines. We did not have any assessable income in Cayman Islands and Hong Kong during the Track Record Period.

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For FY2017, FY2018, FY2019 and 3M2020, our income tax expense was approximately RMB6.1 million, RMB8.4 million, RMB6.9 million and RMB1.5 million, respectively. The following table sets forth a breakdown of our income tax expenses during the Track Record Period:

	FY2017	FY2018	FY2019	3M2019	3M2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Current income tax:					
PRC Enterprise Income Tax (“EIT”)	2,167	3,335	2,290	1,435	22
Malaysian Income Tax	2,958	4,124	5,495	538	1,539
Philippines Income Tax	18	488	364	–	–
Under/(Over)-provision of EIT, Malaysian Income Tax, Philippines Income Tax in prior year	376	(95)	(233)	–	15
	5,519	7,852	7,916	1,973	1,576
Deferred tax	535	586	(997)	405	(55)
Income tax expense	<u>6,054</u>	<u>8,438</u>	<u>6,919</u>	<u>2,378</u>	<u>1,521</u>

Income tax expense comprises current tax and deferred tax. Current income tax comprised tax on profits assessable in the PRC, Malaysia and Philippines, which has been calculated at the applicable corporate income tax (“CIT”) rate of 25%, 24% and 30%, respectively, during the Track Record Period.

Pursuant to the relevant laws and regulations in the PRC, Channel Systems (Shanghai) has obtained the High and New Technology Enterprises qualification. Accordingly, it was entitled to a preferential income tax rate of 15% on its estimated assessable profit during the Track Record Period. See “Risk — Factors Risks — Relating to Our Business — The preferential tax treatment that we currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition”.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each financial year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

We had made adequate tax provision on the assessable profit based on the tax rates prevailing in the country in which we operated for the Track Record Period. Payment of taxes were made in accordance with the payment schedule stipulated by the relevant tax authorities. Our Directors are not aware of any unpaid tax, any dispute or any unresolved tax issues with the relevant tax authorities.

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Effective tax rate

Our effective tax rate, representing income tax expense divided by profit before taxation, was approximately 21.6%, 20.7%, 21.1% and 35.2% for FY2017, FY2018, FY2019 and 3M2020, respectively. The effective tax rate increase from approximately 20.7% for FY2018 to approximately 21.1% for FY2019 was mainly attributable to the increase in expenses not deductible for tax purposes, offset by the effect of our subsidiary, Channel CR Material, meeting the standard of “small and micro enterprise” and enjoying corresponding tax deductions for EIT according to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Policy on Inclusive Tax Reliefs for Small and Micro Enterprises (Cai Shui [2019] No.13) (《財政部、稅務總局關於實施小微企業普惠性稅收減免政策的通知(財稅[2019]13號)》), which was promulgated on 17 January 2019. Our effective tax rate for 3M2020 increased to approximately 35.2%, mainly due to (i) our PRC subsidiaries recorded a loss before tax for 3M2020 as a result of COVID-19; and (ii) the increase in expenses not deductible for tax purposes in our subsidiaries in Malaysia.

Net profit

We recorded net profit of approximately RMB22.0 million, RMB32.3 million, RMB25.9 million and RMB2.8 million for FY2017, FY2018, FY2019 and 3M2020, representing a net profit margin of approximately 15.9%, 18.2%, 12.6% and 10.5%, respectively. Our Adjusted Net Profit (non-HKFRS measure⁽¹⁾) or Adjusted Net Profit Margin (non-HKFRS measure⁽¹⁾) for FY2018, FY2019 and 3M2020 were approximately RMB33.7 million or 19.0%, RMB37.4 million or 18.1% and RMB4.7 million or 17.5% for the corresponding periods, respectively.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

3M2020 compared to 3M2019

Revenue

Our revenue decreased by approximately RMB21.6 million, or 44.8%, from approximately RMB48.2 million for 3M2019 to approximately RMB26.6 million for 3M2020.

Revenue from the sales of cleanroom wall and ceiling systems decreased by approximately RMB18.9 million, or 45.2%, from approximately RMB41.8 million for 3M2019 to approximately RMB23.0 million for 3M2020. It is mainly due to the significant decline in revenue in the PRC market of approximately RMB23.9 million or 69.7%. For PRC, due to the extended Lunar New Year Holiday, the lockdown and quarantine measures under COVID-19, many of our staff and subcontractors were unable to work on the project sites since around mid-January 2020 and until around mid-March 2020, which severely affected our revenue of cleanroom wall and ceiling

Note:

1. The terms of Adjusted Net Profit and Adjusted Net Profit Margin are not defined under HKFRS. We believe that these non-HKFRS measures provide useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed “Financial Information — Summary of Results of Operations — Non-HKFRS measures” for further details.

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systems from the PRC during 3M2020. For revenue of cleanroom wall and ceiling systems from non-PRC markets, we were able to record an increase of RMB5.0 million in 3M2020 as compared to 3M2019 due to the recognition of engineering service income of approximately RMB6.5 million from our data centre facility project in Singapore, which represented approximately 28.2% of our total cleanroom wall and ceiling systems revenue for 3M2020.

Revenue from the sales of cleanroom equipment decreased by approximately RMB3.0 million or 79.1%, from approximately RMB3.7 million for 3M2019 to approximately RMB0.8 million for 3M2020. The decrease was primarily due to delay in contracts and drop in new orders as a result of COVID-19.

Revenue from ancillary business remained relatively stable at approximately RMB2.7 million and RMB2.9 million for 3M2019 and 3M2020, respectively.

Cost of sales

Our cost of sales decreased by approximately RMB12.4 million, or 45.1%, from approximately RMB27.4 million for 3M2019 to approximately RMB15.1 million for 3M2020. The decrease in cost of sales was mainly attributable to the decrease in components for cleanroom for 3M2020 due to the suspension in our operations and on-going projects which is in turn caused by the lockdown measures and transportation restrictions as a result of COVID-19.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB9.2 million, or 44.3%, from approximately RMB20.8 million for 3M2019 to approximately RMB11.6 million for 3M2020. Our gross profit margin remained relatively stable at approximately 43.1% and 43.5% for 3M2019 and 3M2020, respectively.

Despite the fact that our gross profit margin for cleanroom wall and ceiling for 3M2020 was adversely affected by the lockdown and transportation restriction measures imposed by various governments due to COVID-19, which resulted in suspension of our operations and our ongoing projects, our gross profit margin of cleanroom wall and ceiling systems remained relatively stable at approximately 44.7% and 45.9% for 3M2019 and 3M2020, respectively, as we recorded a high gross profit margin of approximately 89.2% from Singapore which is mainly attributable to an engineering service income from the data centre facility project in Singapore that involved minimal direct costs.

Our gross profit margin of cleanroom equipment decreased from approximately 33.9% for 3M2019 to approximately 11.8% for 3M2020 as we were unable to achieve economies of scale due to the low revenue recognised for cleanroom equipment in 3M2020 as a result of the suspension in our operations and on-going projects under COVID-19.

The gross profit margin of our ancillary business remained relatively stable at approximately 31.4% and 32.8% for 3M2019 and 3M2020, respectively.

Other income

Our other income remained the same at approximately RMB0.3 million for both 3M2019 and 3M2020.

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Other gains and losses

Our other gains and losses increased by approximately RMB0.8 million, from net losses of approximately RMB0.3 million for 3M2019 to net gains of approximately RMB0.5 million for 3M2020. The increase was mainly due to the recognition of a foreign exchange loss of approximately RMB0.3 million in 3M2019, as compared to a foreign exchange gain of approximately RMB0.5 million for 3M2020.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB0.6 million, or 38.0%, from approximately RMB1.6 million for 3M2019 to approximately RMB2.3 million for 3M2020. The increase was mainly due to the increase in commission paid of approximately RMB0.6 million, primarily representing a one-off special commission for a sizable contract in Malaysia, supplying wall and ceiling system products for a new cleanroom facility project for a U.S. leading semiconductor company.

Administrative and other operating expenses

Our administrative and other operating expenses decreased by approximately RMB0.6 million, or 18.0%, from approximately RMB3.6 million for 3M2019 to approximately RMB2.9 million for 3M2020. The decrease was primarily due to the net reversal of expected credit losses of approximately RMB1.1 million for 3M2020 as compared to that of approximately RMB0.1 million for 3M2019.

Research and development expenses

Our research and development expenses decreased by approximately RMB0.4 million, or 31.3%, from approximately RMB1.3 million for 3M2019 to approximately RMB0.9 million for 3M2020. The decrease was primarily due to the decrease in cost of raw materials used in research projects.

Listing expenses

Our listing expenses was approximately RMB1.1 million and RMB1.9 million for 3M2019 and 3M2020, respectively, which represented professional services expenses incurred in relation to our application for the Listing.

Finance costs

Our finance costs remained the same at approximately RMB0.2 million for both 3M2019 and 3M2020. Our finance costs were immaterial to us for both periods.

Income tax expense

Our income tax expenses decreased by approximately RMB0.9 million, or 36.0%, from approximately RMB2.4 million for 3M2019 to approximately RMB1.5 million for 3M2020. The decrease was mainly due to the decrease in profit before income tax.

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Net profit

As a results of the above, our net profit decreased by approximately RMB7.9 million, or 73.8% from approximately RMB10.7 million for 3M2019 to approximately RMB2.8 million for 3M2020. Our net profit margin decreased from approximately 22.2% for 3M2019 to approximately 10.5% for 3M2020. Our Adjusted Net Profit Margin (non-HKFRS measure⁽¹⁾) was approximately 24.4% for 3M2019 and approximately 17.5% for 3M2020.

FY2019 compared to FY2018

Revenue

Our revenue increased by approximately RMB28.6 million, or 16.1%, from approximately RMB177.5 million for FY2018 to approximately RMB206.2 million for FY2019, of which approximately RMB26.0 million was contributed by the increase in revenue from cleanroom wall and ceiling systems.

Revenue from the sales of cleanroom wall and ceiling systems increased by approximately RMB26.0 million, or 17.2%, from approximately RMB151.3 million for FY2018 to approximately RMB177.3 million for FY2019. This was mainly driven by the growth we experienced in the Malaysia and PRC markets. Our sales in Malaysia and the PRC increased by approximately RMB18.1 million or 71.9%, and approximately RMB15.0 million or 15.6%, respectively, as compared to FY2018. Please see the paragraph “Revenue by business segment — Cleanroom wall and ceiling systems” above in this section for details of the significant contracts we undertook in the PRC and Malaysia in FY2019.

Revenue from the sales of cleanroom equipment decreased by approximately RMB2.4 million or 14.0%, from approximately RMB16.9 million for FY2018 to approximately RMB14.5 million for FY2019. The decrease was primarily due to the decline in sales of cleanroom equipment in Malaysia. However, if we exclude the 2018 Order, sales in Malaysia in FY2019 actually increased by approximately RMB0.8 million or the overall sales of cleanroom equipment in FY2019 would have increased by approximately RMB3.6 million, representing approximately 33.3% of the adjusted sales of approximately RMB10.9 million in FY2018.

Revenue from ancillary business increased by approximately RMB5.0 million or 53.7%, from approximately RMB9.4 million for FY2018 to approximately RMB14.4 million for FY2019. The increase was primarily due to the increase in demand for replacement and upgrading of their raised floor system.

Note:

1. The term of Adjusted Net Profit Margin is not defined under HKFRS. We believe that this non-HKFRS measure provides useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed “Financial Information — Summary of Results of Operations — Non-HKFRS measures” for further details.

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Cost of sales

Our cost of sales increased by approximately RMB17.8 million, or 16.6%, from approximately RMB107.6 million for FY2018 to approximately RMB125.4 million for FY2019. The increase in cost of sales was due to the increase in costs for components for cleanroom as a result of the increase in purchase of semi-finished wall and ceiling panels for our further processing to meet our production needs in the PRC, which was partly offset by the decrease in subcontracting expenses as a result of lower demand for installation work in our contracts.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB10.8 million, or 15.4%, from approximately RMB70.0 million for FY2018 to approximately RMB80.8 million for FY2019. Our gross profit margin remained stable at 39.2% for FY2019 as compared to approximately 39.4% for FY2018.

Our gross profit margin of cleanroom wall and ceiling systems increased from approximately 38.5% for FY2018 to approximately 39.7% for FY2019, mainly attributable to several contracts with total revenue recognised for FY2019 of approximately RMB28.2 million generating higher-than-average gross margins ranging from approximately 41.9% to 60.3% due to last minute changes in cleanroom layout in FY2019.

Our gross profit margin of cleanroom equipment decreased from approximately 45.2% for FY2018 to approximately 34.1% for FY2019. The higher gross profit margin for FY2018 was due to the higher gross profit margin of the 2018 Order in FY2018 as mentioned above.

The gross profit margin of our ancillary business decreased from approximately 43.8% for FY2018 to 37.8% for FY2019. The higher gross profit margin for FY2018 was due to the higher price from the more complex orders we received from our largest customer for raised floor systems as mentioned above. The gross profit margin of approximately 37.8% for FY2019 was more comparable to the margin of approximately 36.4% for FY2017.

Other income

Our other income increased by approximately RMB0.2 million, or 9.5%, from approximately RMB1.8 million for FY2018 to approximately RMB1.9 million for FY2019. The increase was mainly due to the increase in government grants and bank interest income, which was partly offset by the decrease in sundry income.

Other gains and losses

Our other gains and losses increased by approximately RMB0.8 million, or 7.5 times, from net gains of approximately RMB0.1 million for FY2018 to net gains of approximately RMB0.9 million for FY2019. The increase was mainly due to the increase in net foreign exchange gain from approximately RMB0.1 million for FY2018 to approximately RMB0.8 million for FY2019.

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Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB0.6 million, or 7.4%, from approximately RMB8.4 million for FY2018 to approximately RMB9.0 million for FY2019. The increase was mainly due to (i) the increase in commission paid of approximately RMB0.3 million; and (ii) the increase in entertainment and travelling expenses of approximately RMB0.2 million as a result of our sales staff visiting more our customers and suppliers for business development.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately RMB7.6 million, or 48.5%, from approximately RMB15.7 million for FY2018 to approximately RMB23.4 million for FY2019. Our administrative expenses for FY2019 increased by approximately RMB7.6 million mainly as a result of (i) the increase in staff costs of approximately RMB4.2 million due to the increase in directors' emolument, staff salaries and head count; (ii) a credit loss of approximately RMB1.8 million was incurred in FY2019 as compared to a credit loss written back of approximately RMB1.2 million in FY2018; and (iii) other expenses increased by RMB0.9 million, mainly as a result of increase in costs for upkeep of our factories of approximately RMB0.3 million and ISO registration fees of approximately RMB0.2 million.

Research and development expenses

Our research and development expenses increased by approximately RMB0.9 million, or 16.4%, from approximately RMB5.4 million for FY2018 to approximately RMB6.2 million for FY2019. The increase was primarily due to the increase in cost of raw materials used in each research project.

Listing expenses

Our listing expenses were RMB1.4 million and RMB11.4 million for FY2018 and FY2019, respectively, which represented professional services expenses incurred in relation to our application for the Listing.

Finance costs

Our finance costs were approximately RMB0.2 million and RMB0.7 million for FY2018 and FY2019, respectively. Our finance costs were immaterial to us for both years.

Income tax expense

Our income tax expenses decreased by approximately RMB1.5 million, or 18.0%, from approximately RMB8.4 million for FY2018 to approximately RMB6.9 million for FY2019. The decrease was mainly due to the decrease in profit before income tax.

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Net profit

As a result of the above, our net profit decreased by approximately RMB6.3 million, or 19.6%, from approximately RMB32.3 million for FY2018 to approximately RMB25.9 million for FY2019. Our net profit margin decreased from approximately 18.2% for FY2018 to approximately 12.6% for FY2019. Our Adjusted Net Profit Margin (non-HKFRS measure⁽¹⁾) was approximately 19.0% for FY2018 and approximately 18.1% for FY2019.

FY2018 compared to FY2017

Revenue

Our revenue increased by approximately RMB39.3 million, or 28.4%, from approximately RMB138.3 million for FY2017 to approximately RMB177.5 million for FY2018, of which approximately RMB33.0 million was contributed by the increase in revenue from cleanroom wall and ceiling systems.

Revenue from the sales of cleanroom wall and ceiling systems increased by approximately RMB33.0 million, or 27.8%, from approximately RMB118.3 million for FY2017 to approximately RMB151.3 million for FY2018. This was mainly driven by the growth we experienced in the PRC market. In FY2018, our sales in the PRC increased by approximately RMB39.9 million or 71.1% as compared to FY2017. The substantial growth in the PRC market was mainly derived from the semiconductor industry. This is consistent with “Made in China 2025” Guideline target, as set out in the F&S Report, that the PRC domestic production level of semiconductors is expected to increase to 40% by 2020 and further to 70% by 2025, which results in more investment and hence greater demand for cleanroom facility products in the semiconductor industry. According to Frost & Sullivan, the “Made in China 2025” Guideline was issued by the Chinese Government in 2015, when the domestic production volume of integrated circuits accounted for about 26% of total supply in the PRC, while imported integrated circuits accounted for the remaining 74% of total supply in the PRC. During FY2018, we undertook a number of sizable contracts. Total revenue derived from these contracts amounted to approximately RMB83.0 million in FY2018, representing approximately 86.4% of the revenue in the PRC market or approximately 54.8% of our total revenue from the cleanroom wall and ceiling systems in FY2018. Please see the paragraph “Revenue by business segment — Cleanroom wall and ceiling systems” above in this section for details of the significant contracts we undertook in the PRC in FY2018.

Note:

1. The term of Adjusted Net Profit Margin is not defined under HKFRS. We believe that this non-HKFRS measure provides useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed “Financial Information — Summary of Results of Operations — Non-HKFRS measures” for further details.

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Revenue from the sales of cleanroom equipment increased by approximately RMB3.8 million or 29.5%, from approximately RMB13.1 million for FY2017 to approximately RMB16.9 million for FY2018. The increase was primarily due to an order from a semiconductor assembly and test services provider in Malaysia, for which we have supplied approximately 650 fan filter units and cleanroom equipment such as air showers and clean booths, and from which revenue generated for FY2018 amounted to approximately RMB6.0 million, representing approximately 35.5% of our total cleanroom equipment revenue for FY2018.

Revenue from ancillary business increased by approximately RMB2.5 million or 36.1%, from approximately RMB6.9 million for FY2017 to approximately RMB9.4 million for FY2018. The increase was primarily due to the increase in demand for replacement and upgrading of their raised floor system.

Cost of sales

Our cost of sales increased by approximately RMB28.0 million, or 35.2%, from approximately RMB79.6 million for FY2017 to approximately RMB107.6 million for FY2018. The increase in cost of sales was primarily due to increase in purchase of direct materials and the increase in subcontracting expenses which was in turn attributable to the increase in purchase of semi-finished wall and ceiling panels for our further processing to meet our production needs in the PRC, and the increase in installation works outsourced to subcontractors as a result of the increase in our revenue, in particular as we undertook more sizeable contracts during FY2018 which required the installation of our products.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB11.3 million, or 19.2%, from approximately RMB58.7 million for FY2017 to approximately RMB70.0 million for FY2018. Our gross profit margin decreased 3.1 percentage points from approximately 42.5% for FY2017 to 39.4% for FY2018. The decrease was mainly due to the decrease in gross profit margin of our largest business segment, namely cleanroom wall and ceiling systems.

Our gross profit margin of cleanroom wall and ceiling systems decreased from approximately 43.3% for FY2017 to approximately 38.5% for FY2018, mainly attributable to the decrease in gross profit margin of the installation services, which decreased from approximately 34.5% for FY2017 to approximately 19.0% for FY2018. We lowered our profit margin for installation services in FY2018 because our Directors considered that our ability to secure sizeable contracts with installation services would enhance our reputation and job references in the PRC market and shall be beneficial to us in competing for other sizeable contracts with similar scale from other contract owners in the future. Excluding the contribution from installation services, we recorded a gross profit margin of approximately 44.2% and 43.7% for FY2017 and FY2018, respectively. Furthermore, as mentioned above, we bought more semi-finished wall and ceiling panels for further processing to meet our production needs in the PRC in FY2018, resulting a higher cost of goods sold as a percentage of sales and hence a lower gross profit margin.

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Our gross profit margin of cleanroom equipment increased from approximately 37.6% for FY2017 to approximately 45.2% for FY2018 because some of the orders received for cleanroom equipment in FY2018 were more complex and had a higher gross profit margin. In particular, the estimated gross profit margin of the approximately RMB6.0 million order as mentioned in the paragraph “Revenue by business segment — Cleanroom equipment” above was higher at approximately 51.3% as we offered more customised cleanroom equipment to this customer.

The gross profit margin of our ancillary business increased from approximately 36.4% for FY2017 to 43.8% for FY2018. The change in gross profit margin of our ancillary business was in line with the movement in gross profit margin for trading of raised floor systems, which has increased from approximately 25.5% for FY2017 to approximately 38.1% for FY2018. Gross profit margin increased from FY2017 to FY2018 because the orders received from a customer, which is a semiconductor product packaging and test services provider in the Philippines and our largest customer for raised floor systems, for replacement of raised floor system in FY2018 were carried out in a more complex environment and therefore we were able to quote a higher price. As a result, the gross profit margin increased in FY2018.

Other income

Our other income increased by approximately RMB0.4 million, or 30.5%, from approximately RMB1.3 million for FY2017 to approximately RMB1.8 million for FY2018. The increase was mainly due to the increase in sundry income.

Other gains and losses

Our other gains and losses increased by approximately RMB2.1 million, or 105.5%, from net losses of approximately RMB2.0 million for FY2017 to net gains of approximately RMB0.1 million for FY2018. The increase was mainly due to the recognition of a foreign exchange loss of approximately RMB2.8 million in FY2017, compared with a foreign exchange gain of approximately RMB0.1 million for FY2018.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB1.3 million, or 17.6%, from approximately RMB7.1 million for FY2017 to approximately RMB8.4 million for FY2018. The increase was mainly due to (i) the increase in entertainment and travelling expenses of approximately RMB0.6 million as a result of our sales staff visiting more our customers and suppliers for business development, and (ii) the increase in staff costs of approximately RMB0.5 million resulting from annual salary increment.

Administrative and other operating expenses

Our administrative and other operating expenses decreased by approximately RMB0.7 million, or 4.1%, from approximately RMB16.4 million for FY2017 to approximately RMB15.7 million for FY2018. The decrease was primarily due to net decrease in ECL provided of approximately RMB2.3 million based on the provision matrix, partially offset by increase in auditors’ remuneration and increase in staff costs resulting from increase in number of staff.

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Research and development expenses

Our research and development expenses decreased by approximately RMB0.7 million, or 12.3%, from approximately RMB6.1 million for FY2017 to approximately RMB5.4 million for FY2018. The decrease was primarily due to the decrease in cost of raw materials used in each research project.

Listing expenses

Our listing expenses was nil and RMB1.4 million for FY2017 and FY2018, respectively, which represented professional services expenses incurred in relation to our application for the Listing.

Finance costs

Our finance costs were approximately RMB0.3 million and RMB0.2 million for FY2017 and FY2018, respectively. Our finance costs were immaterial to us for both years.

Income tax expense

Our income tax expenses increased by approximately RMB2.4 million, or 39.4%, from approximately RMB6.1 million for FY2017 to approximately RMB8.4 million for FY2018. The increase was mainly due to the increase in profit before income tax. Our effective tax rate decreased from approximately 21.6% for FY2017 to approximately 20.7% for FY2018 due to the recognition of certain over-provision of profits tax in previous years during FY2018.

Net profit

As a result of the above, our net profit increased by approximately RMB10.2 million, or 46.5%, from approximately RMB22.0 million for FY2017 to approximately RMB32.3 million for FY2018. Our net profit margin increased from approximately 15.9% for FY2017 to approximately 18.2% for FY2018. Our Adjusted Net Profit Margin (non-HKFRS measure⁽¹⁾) was approximately 15.9% for FY2017 and approximately 19.0% for FY2018.

Note:

1. The term of Adjusted Net Profit Margin is not defined under HKFRS. We believe that this non-HKFRS measure provides useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed “Financial Information — Summary of Results of Operations — Non-HKFRS measures” for further details.

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DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 31 March	As at 31 July
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i> <i>(unaudited)</i>
Current assets					
Inventories	12,608	11,732	9,621	13,813	20,017
Trade and other receivables	49,973	35,379	70,242	53,569	64,137
Contract assets	23,217	21,800	48,849	33,829	23,472
Amounts due from related parties	3,309	3,453	12	3	25
Income tax recoverable	4,866	6,969	4,962	2,153	2,643
Financial asset at fair value through profit or loss (“FVTPL”)	–	4,000	9,000	–	–
Pledged bank deposits	3,250	1,188	622	622	932
Cash and bank balances	26,278	68,411	34,621	57,021	48,713
	123,501	152,932	177,929	161,010	159,939
Current liabilities					
Trade and other payables	32,769	24,168	46,125	25,426	30,798
Contract liabilities	2,522	2,141	4,441	4,342	4,167
Amounts due to related parties	54	3	26	135	564
Lease liabilities	1,539	1,567	1,629	1,543	1,560
Borrowings	3,295	14,930	14,675	17,992	25,925
Income tax payable	1,205	1,211	1,924	1,203	1,008
	41,384	44,020	68,910	50,641	64,022
Net current assets	82,117	108,912	109,019	110,369	95,917

Our net current assets represent the differences between our current assets and our current liabilities. As at 31 December 2017, 2018, 2019 and 31 March 2020, we had net current assets of approximately RMB82.1 million, RMB108.9 million, RMB109.0 million and RMB110.4 million, respectively. As at 31 July 2020, we had net current assets of approximately RMB95.9 million.

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DESCRIPTION AND ANALYSIS OF PRINCIPAL COMPONENTS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following is a summary of the consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	31,486	34,169	34,556	31,473
Deferred tax assets	2,623	2,026	3,071	3,182
	<u>34,109</u>	<u>36,195</u>	<u>37,627</u>	<u>34,655</u>
Current assets				
Inventories	12,608	11,732	9,621	13,813
Trade and other receivables	49,973	35,379	70,242	53,569
Contract assets	23,217	21,800	48,849	33,829
Amounts due from related parties	3,309	3,453	12	3
Income tax recoverable	4,866	6,969	4,962	2,153
Financial assets at fair value through profit or loss (“FVTPL”)	–	4,000	9,000	–
Pledged bank deposits	3,250	1,188	622	622
Cash and cash equivalents	26,278	68,411	34,621	57,021
	<u>123,501</u>	<u>152,932</u>	<u>177,929</u>	<u>161,010</u>
Current liabilities				
Trade and other payables	32,769	24,168	46,215	25,426
Contract liabilities	2,522	2,141	4,441	4,342
Amounts due to related parties	54	3	26	135
Lease liabilities	1,539	1,567	1,629	1,543
Borrowings	3,295	14,930	14,675	17,992
Income tax payable	1,205	1,211	1,924	1,203
	<u>41,384</u>	<u>44,020</u>	<u>68,910</u>	<u>50,641</u>
Non-current liabilities				
Lease liabilities	890	2,705	1,473	1,081
Deferred tax liabilities	2,514	2,559	3,272	3,174
	<u>3,404</u>	<u>5,264</u>	<u>4,745</u>	<u>4,255</u>
Net assets attributable to:				
Equity holders of the Company	81,045	99,921	141,245	140,086
Non-controlling interests	31,777	39,922	656	683
	<u>112,822</u>	<u>139,843</u>	<u>141,901</u>	<u>140,769</u>

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Property, plant and equipment

Our property, plant and equipment amounted to approximately RMB31.5 million, RMB34.2 million, RMB34.6 million and RMB31.5 million as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively, and mainly comprised freehold land and building for our production facilities, warehouses and office premises in Malaysia. As at 31 December 2017, 2018 and 2019, and 31 March 2020, the aggregate net book value of freehold land and building accounted for approximately 80.7%, 77.0%, 78.8% and 79.3% of the total net book value of our property, plant and equipment, respectively.

Our property, plant and equipment increased by approximately RMB2.7 million, or 8.5%, from 31 December 2017 to 31 December 2018, mainly due to the additional right-of-use assets in relation to the leased PRC Factory renewed during FY2018.

Our property, plant and equipment remained relatively stable at approximately RMB34.2 million and RMB34.6 million as at 31 December 2018 and 31 December 2019, respectively.

Our property, plant and equipment decreased by approximately RMB3.1 million, or 8.9%, from 31 December 2019 to 31 March 2020, mainly due to (i) the decrease in fair value of freehold land of approximately RMB1.3 million due to revaluation; and (ii) the negative exchange difference of approximately RMB1.1 million.

Deferred tax assets/liabilities

Our deferred tax assets amounted to approximately RMB2.6 million RMB2.0 million, RMB3.1 million and RMB3.2 million as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively, and mainly represented the deductible temporary differences arising from billings in advance from customer, allowances for expected credit loss, tax losses, provisions for inventories and accrued expenses.

Our deferred tax liabilities amounted to approximately RMB2.5 million, RMB2.6 million, RMB3.3 million and RMB3.2 million as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively, and mainly represented the taxable temporary differences arising from accelerated tax depreciation and revaluation of property held for own use.

Inventories

Our inventories primarily consisted of raw materials used in production and finished goods. Our raw materials primarily consisted of components for cleanroom, aluminum and steel coil, whereas finished goods consist of products yet to be delivered to our customers. The carrying value of our inventories accounted for approximately 8.0%, 6.2%, 4.5% and 7.1% of our total assets as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively.

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The following table sets forth the breakdown of our inventories as at the dates indicated:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	7,955	7,439	7,723	8,953
Finished goods	4,653	4,293	1,898	4,860
Total	12,608	11,732	9,621	13,813

The following table sets forth our inventory turnover days for the year/period indicated.

	For			
	FY2017	FY2018	FY2019	3M2020
Inventory turnover days ^(Note)	48.3	41.3	31.1	70.0

Note: Inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales for that year/period, multiplied by 365 days for FY2017, FY2018 and FY2019, and 90 days for 3M2020.

The average inventory turnover days were approximately 48.3 days, 41.3 days, 31.1 days and 70.0 days for FY2017, FY2018, FY2019 and 3M2020, respectively. The decrease in inventory turnover days from FY2017 to FY2019 was mainly attributable to our continued effort in management and control over the inventory level, as well as reasonable coordination of materials procurement and production. Our inventory turnover days increased from approximately 31.1 days for FY2019 to approximately 70.0 days for 3M2020 mainly due to the fact that we were unable to deliver finished goods to our customers which is in turn caused by the lockdown measures and transportation restrictions as a result of COVID-19.

The following table sets forth our ageing analysis of inventories, net of provision, as at the dates indicated:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 – 90 days	8,451	7,599	4,974	8,311
91 – 180 days	2,232	1,142	1,361	1,413
181 – 365 days	867	1,540	1,433	1,717
Over 1 year	1,058	1,451	1,853	2,372
Total	12,608	11,732	9,621	13,813

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We estimated the net realisable value of our inventories based on the best available facts and circumstances, including the physical conditions, market selling prices and estimated costs to be incurred for their sales. For FY2017, FY2018, FY2019 and 3M2020, we recognised a provision of RMB0.6 million, RMB1.0 million, RMB1.2 million and RMB1.3 million, respectively.

As at the Latest Practicable Date, an aggregate amount of approximately RMB9.9 million, or 65.3%, of our total gross inventories as at 31 March 2020 were subsequently consumed and sold.

Trade and other receivables

Our trade receivables mainly represented amounts receivable from our customers in relation to our sales of cleanroom wall and ceiling systems and cleanroom equipment and provision of installation services. Our other receivables primarily consisted of prepayments, other tax receivables, bill receivables and other receivables. The following table sets forth the breakdown of our trade and other receivables as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
– from related companies controlled by the Controlling Shareholders	–	1,722	–	–
– from third parties	45,962	32,620	56,943	32,669
Less: ECL allowance	(3,564)	(2,480)	(3,281)	(2,600)
	<u>42,398</u>	<u>31,862</u>	<u>53,662</u>	<u>30,069</u>
Bill receivables	–	204	1,856	9,482
	<u>42,398</u>	<u>32,066</u>	<u>55,518</u>	<u>39,551</u>
Other receivables				
Prepayments	1,132	837	1,608	3,862
Prepaid listing expenses	–	496	4,030	4,526
Other tax receivables	4,070	1,429	4,358	4,830
Other receivables	1,826	196	4,406	215
Rental and other deposits	597	380	354	617
	<u>7,625</u>	<u>3,338</u>	<u>14,756</u>	<u>14,050</u>
Less: ECL allowance	(50)	(25)	(32)	(32)
	<u>7,575</u>	<u>3,313</u>	<u>14,724</u>	<u>14,018</u>
Total	<u>49,973</u>	<u>35,379</u>	<u>70,242</u>	<u>53,569</u>

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Trade receivables

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our trade receivables amounted to approximately RMB42.4 million, RMB31.9 million, RMB53.7 million and RMB30.1 million, respectively.

The following table sets forth our trade receivables turnover days for the year/period indicated.

	For			
	FY2017	FY2018	FY2019	3M2020
Trade receivables turnover days ^(Note)	84.0	76.3	75.7	141.5

Note: Trade receivables turnover days is calculated as the average of the beginning and ending trade receivables balances for the year/period, divided by the total revenue for that year/period, multiplied by 365 days for FY2017, FY2018 and FY2019, and 90 days for 3M2020.

In general, we provide customers with a credit term of 30 to 90 days. Payments are mainly settled through bank transfer and letter of credit. Our trade receivables turnover days were approximately 84.0 days, 76.3 days, 75.7 days and 141.5 days for FY2017, FY2018, FY2019 and 3M2020, respectively. Our trade receivables turnover days were within our normal credit term granted to customers for FY2017, FY2018 and FY2019. For 3M2020, our trade receivables turnover days increased to approximately 141.5 days mainly attributable to (i) delay in payment due to COVID-19; (ii) long outstanding trade receivables which remain outstanding due to specific reasons of the relevant projects as further elaborated below; and (iii) low revenue recognised for 3M2020.

To measure the expected credit losses, we group the trade receivables based on the payment profile for sales in the past months as well as the corresponding historical credit losses during that period. For FY2017, FY2018, FY2019 and 3M2020, we recognised allowance for expected credit losses of approximately RMB3.6 million, RMB2.5 million, RMB3.3 million and RMB2.6 million, respectively.

The following table sets forth our trade receivables turnover days (including contract assets) for the year/period indicated.

	For			
	FY2017	FY2018	FY2019	3M2020
Trade receivables turnover Days (including contract assets) ^(Note)	137.8	122.6	138.2	281.1

Note: Trade receivables turnover days (including contract assets) is calculated as the average of the beginning and ending trade receivables balances and contract assets for the year/period, divided by the total revenue for that year/period, multiplied by 365 days for FY2017, FY2018 and FY2019, and 90 days for 3M2020.

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Our trade receivables turnover days (including contract assets) increased to approximately 138.2 days for FY2019. The increase in trade receivables and contract assets balance of approximately 68.4% and 1.2 times, respectively was mainly due to the increase in revenue and in particular, the relatively higher revenue recognised in November and December 2019. Our trade receivables turnover days (including contract assets) increased to approximately 281.1 days mainly attributable to (i) delay in payment due to COVID-19; in particular, the suspension of our operations during 3M2020 affected our ability to follow up with our customers on collection of trade receivables; similarly, our customers also faced challenges in processing payments amid COVID-19; (ii) the significant increase in trade receivables aged “91-180 days” and “over 365 days”; the specific reasons of the leading to the long outstanding trade receivables are further elaborated below; and (iii) the fact that we recorded low revenue recognised for 3M2020 but our trade receivable (including contract assets) decreased by a lesser extent.

The following table sets forth our ageing analysis of trade receivables, net of expected credit loss allowance, as at the dates indicated:

	As at 31 December			As at 31 March
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>
0 – 90 days	35,835	28,896	46,098	18,513
91 – 180 days	1,614	1,192	4,519	7,242
181 – 365 days	3,833	854	2,328	2,330
Over 365 days	1,116	920	717	1,984
Total	42,398	31,862	53,662	30,069

The increase in the trade receivables aged 90 days or less as at 31 December 2019 was mainly due to the relatively higher revenue recognised in November and December 2019.

The decrease in the trade receivables aged 90 days or less as at 31 March 2020 was mainly due to the decrease in revenue for 3M2020. Details of the trade receivables aged over 90 days as at 31 March 2020 are set out below:

- (i) among the trade receivables aged “91-180 days” as at 31 March 2020 of approximately RMB7.2 million, (a) approximately RMB3.8 million or 52.3% were due from two customers in Malaysia and a customer in Singapore who were unable to process payment as at 31 March 2020 due to COVID-19. As at the Latest Practicable Date, these three customers had settled approximately RMB3.8 million; (b) approximately RMB1.2 million or 16.6% was due from a customer in the PRC (“**PRC Customer A**”), as while our work under the contract had been completed, the completion of the entire underlying project is expected to delay until December 2020 and the customer had not received the corresponding payment from the facility owner yet; (c) approximately RMB0.4 million or 6.2% was due from a customer in the Philippines who took longer to process payment as at 31 March 2020 due to corporate restructuring; and (d)

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approximately RMB0.4 million or 5.9% was due from another customer in the PRC (“**PRC Customer B**”) for two separate projects, as while our work under the contract had been completed, the completion of the entire underlying projects are expected to delay until September 2020 and October 2020, respectively, and the customer had not received the corresponding payment from the respective facility owners. Our Directors considered that it is common in our industry that sometimes we are only paid when our customers receive the corresponding payments from the facility owners. As we are only one of the suppliers of the underlying projects for the cleanroom facilities, the underlying projects may take a much longer time to complete, sometimes up to six to nine months before our customers got paid from the facility owners. Therefore, it is common that the progress payment and the final balance of a project may remain outstanding for more than 90 days. The remaining trade receivables aged “91-180 days” represented outstanding balances from 15 customers with individual amount of less than RMB0.3 million;

- (ii) among the trade receivables aged “181-365 days” as at 31 March 2020 of approximately RMB2.3 million, (a) approximately RMB1.1 million or 45.8% were due from the PRC Customer A for the same underlying project as mentioned in (i)(b) above; and (b) approximately RMB0.3 million or 11.5% was due from another customer in the PRC (“**PRC Customer C**”), as while our work under the contract have been completed, the completion of the entire underlying project is expected to delay until October 2020 and the customer had not received the corresponding payment from the facility owner yet;
- (iii) among the trade receivables aged “over 365 days” as at 31 March 2020 of approximately RMB2.0 million, approximately RMB1.3 million or 67.2% were due from PRC Customer C for the same underlying project as mentioned in (ii)(b) above; and (b) approximately RMB0.2 million or 10.0% was due from PRC Customer B for the project that is expected to delay until September 2020 as mentioned in (i)(c) above; and
- (iv) the remaining balances of trade receivables aged over 181 days mainly represented outstanding balances that we are unconditionally entitled to from more than 20 customers which may be due to various reasons such as their internal approval procedures not having been completed and/or the corresponding back-to-back payments from the facility owners not having been received, which delayed settlement of our receivables.

Our Directors closely monitor the settlement progress of our receivables and apply a simplified approach in calculating ECL and recognise loss allowance based on lifetime ECL at each reporting date. As at 31 December 2017, 2018 and 2019, and 31 March 2020, we had provided for ECL allowance in the amount of RMB3.6 million, RMB2.5 million, RMB3.3 million and RMB2.6 million respectively.

As at the Latest Practicable Date, an aggregate amount of approximately RMB25.6 million, or 78.4%, of our total gross trade receivables as at 31 March 2020 had been settled.

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Bill receivables

Our bill receivables mainly represent promissory notes we received from our clients for settlement purposes. All the bill receivables are due within one year. Our bill receivables increased from approximately RMB1.9 million as at 31 December 2019 to RMB9.5 million as at 31 March 2020. As at 31 March 2020, the bill receivables of approximately RMB9.5 million mainly consisted of three promissory notes with aggregate amount of approximately RMB9.0 million that are unconditionally redeemable upon expiration from a reputable bank in the PRC that is listed on the Shanghai Stock Exchange with a market capitalisation of over RMB290 billion as at the Latest Practicable Date, that we received from Customer C for a monocrystalline silicon material manufacturing facility in Inner Mongolia, the PRC as settlement in accordance with the terms of the contract.

Other receivables

Our other receivables mainly comprised prepaid listing expenses, prepayments to suppliers, other tax receivables and other receivables. Our other tax receivables mainly comprised value added tax (VAT) receivables in the PRC from export sales during the Track Record Period. As at 31 December 2017, 2018 and 2019, and 31 March 2020, our other receivables amounted to approximately RMB7.6 million, RMB3.3 million, RMB14.8 million and RMB14.1 million, respectively. The decrease in balance at 31 December 2018 as compared to 31 December 2017 was mainly due to the (i) decrease in VAT receivable of approximately RMB2.6 million and (ii) decrease in other receivables of approximately RMB1.6 million. The increase in balance at 31 December 2019 as compared to 31 December 2018 was mainly due to the (i) increase in other receivables of approximately RMB4.2 million, which mainly consisted of the billing in advance for a contract with a contract sum of approximately RMB42.6 million, (ii) increase in prepaid listing expenses of approximately RMB3.5 million, and (iii) increase in VAT receivables of approximately RMB2.9 million. Our other receivables remained stable as at 31 December 2019 and 31 March 2020.

Contract assets/Contract liabilities

A contract asset is recognised when we recognise revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Our contract assets primarily related to (i) unbilled revenue and (ii) retention receivables, as set out below:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unbilled revenue	16,415	16,088	35,998	21,632
Retention	7,715	6,546	14,720	13,491
Less: ECL allowance	(913)	(834)	(1,869)	(1,294)
TOTAL	<u>23,217</u>	<u>21,800</u>	<u>48,849</u>	<u>33,829</u>

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Unbilled revenue arises when revenue had been recognised for the completion of cleanroom construction services that had been approved by our customers (supported by the customer-certified progress reports) or upon delivery of sales of goods but we are yet to be entitled to invoice our customers or be unconditionally/contractually entitled to the payment under the terms set out in the contracts. For example, in the contracts with some of our customers, there is a payment term that we are only entitled to payment of our services or sales of goods after they have received the corresponding payments from their customers (i.e. the facility owners). Under such circumstance, we are not entitled to issue our invoice even though revenue is recognised after obtaining the customer-certified progress reports. The corresponding receivables are therefore classified as contract assets until we are entitled to issue our invoice. By then, the corresponding amount of the contract assets is reclassified to trade receivables. According to Frost & Sullivan, it is common in Southeast Asia countries where the Group has substantial business dealings and in the PRC that cleanroom facility suppliers would receive payments for their services or sales of goods after the relevant customers have received the corresponding payments from their customers (i.e. the facility owners).

Retention receivables represented the retention monies required by our customers to secure our due performance of the contracts. We normally agree with our customers on a contract by contract basis on the amount of retention money for a retention period of one to two years, which, if any, was generally 3% to 10% of the contract value. This amount is included in “contract assets” as our entitlement to this final payment is conditional on our working being satisfactory until the end of retention period. The relevant amount of contract asset is reclassified to “trade receivables” when the retention period expires. In addition, it is market practice that customers would withhold 3% to 10% of the contract value as retention money after the completion of the installation services or sales of goods upon delivery in Southeast Asia countries where the Group has substantial business dealings and in the PRC.

In connection with cleanroom projects with installation services where revenue is recognised over time, the Group will prepare progress reports based on the progress of construction works of each project, and such reports will then be submitted to the representatives of the customers on-site (such as construction manager/site manager/package owner/project engineer or manager) for verification, approval and certification by signing after their physical inspection. However, the timing for issuing invoice for payments is subject to other contract terms such as payments terms as stipulated in the contract which does not necessarily align with the timing for revenue recognition. To issue invoice for progress payment, the Group generally has to apply for payment from its customers. Some customers have a formal payment application process by issuing a certificate of payment which is prepared with reference to the agreed amount of work completed in the customer-certified progress reports but some customers have an informal payment process without a certificate of payment and in such circumstances, payment is mutually agreed with reference to the agreed amount of work completed in the customer-certified progress reports. In terms of timing, it normally takes not more than 45 days for the customers to approve the payment applications. After the payment application is approved by that customer, the Group may issue invoice for payment. As the timing for revenue recognition does not always coincide with the timing of invoicing customers which is subject to contract terms, and that a certificate of payment is not always available, the Group recognised its revenue based on the customer-certified progress reports which are approved by our customers. The Group’s customer-certified progress reports are validated and signed by the representatives of the customers at the site and therefore the Group’s revenue recognition is not based on the one-sided estimation of the Group.

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At the end of each reporting period, irrespective of whether invoices were issued to the customer, the Group would recognise the revenue based on the customer-certified progress reports, which are validated and signed by the representatives of the customers at the site and not based on the one-sided estimation of the Group.

In the contract assets, approximately RMB4.8 million, RMB3.4 million, RMB0.5 million and nil for FY2017, FY2018, FY2019 and 3M2020, respectively, was attributable to amounts of goods delivered and services rendered to customers as stated in the progress reports which had yet to be approved by customers up to the respective year/period ends. Although such amounts were recognised as revenue based on the progress reports, all of them were subsequently validated and approved by the customers after the end of each reporting period. In other words, no estimation or assumption by the management of the Group was involved. As at 31 May 2020, all relevant progress reports for the aforesaid revenue had been approved by the customers.

Our contract assets amounted to approximately RMB23.2 million, RMB21.8 million, RMB48.8 million and RMB33.8 million, as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively. As at 31 March 2020, all contract assets were supported by customer-certified progress reports (for cleanroom projects) or signed delivery notes (for sales of goods) received on or before 31 March 2020.

The following table sets forth the breakdown of our contract assets as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets arising from cleanroom projects				
Unbilled revenue	14,727	15,991	35,743	21,240
Retention	7,019	5,669	14,684	13,461
	<u>21,746</u>	<u>21,660</u>	<u>50,427</u>	<u>34,701</u>
Contract assets arising from sales of goods				
Unbilled revenue	1,688	97	255	392
Retention	696	877	36	30
	<u>2,384</u>	<u>974</u>	<u>291</u>	<u>422</u>
Less: ECL allowance	<u>(913)</u>	<u>(834)</u>	<u>(1,869)</u>	<u>(1,294)</u>
TOTAL	<u><u>23,217</u></u>	<u><u>21,800</u></u>	<u><u>48,849</u></u>	<u><u>33,829</u></u>

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The increase in contract assets was primarily attributable to the increase in unbilled revenue and increase in contracts which required the retention money for which the retention periods had not yet been expired.

The following table sets forth the movement of retention receivables during the Track Record Period:

	FY2017	FY2018	FY2019	3M2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	4,913	7,715	6,546	14,720
Reclassified to trade receivables	(3,575)	(5,847)	(4,672)	(1,493)
Increase in retention receivables during the year/period	6,322	4,643	12,745	443
Exchange differences	55	35	101	(179)
	<u>7,715</u>	<u>6,546</u>	<u>14,720</u>	<u>13,491</u>

The following table sets forth our ageing analysis of contract assets, net of allowance, as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days	14,376	11,706	28,156	8,550
91-180 days	538	1,065	7,976	11,354
181-365 days	1,564	7,140	4,069	6,859
Over 365 days	6,739	1,889	8,648	7,066
	<u>23,217</u>	<u>21,800</u>	<u>48,849</u>	<u>33,829</u>

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As at 31 May 2020, an aggregate amount of approximately RMB10.6 million, or 30.2%, of our total gross contract assets as at 31 March 2020 had been billed to customers and reclassified as trade receivables details of which are set out below:

	As at 31 March 2020				Subsequent billing to customers up to 31 May 2020				Remaining balance as at 31 May 2020				
	Unbilled revenue RMB'000	Retention RMB'000	Gross total RMB'000	ECL RMB'000	Net total RMB'000	Unbilled revenue RMB'000	Retention RMB'000	Gross total RMB'000	%	Unbilled revenue RMB'000	Retention RMB'000	Gross total RMB'000	%
0-90 days	8,436	441	8,877	(327)	8,550	5,799	-	5,799	65.3	2,637	441	3,078	100.0
91-180 days	4,537	7,251	11,788	(434)	11,354	2,617	-	2,617	22.2	1,920	7,251	9,171	100.0
181-365 days	5,144	1,977	7,121	(262)	6,859	2,195	7	2,202	30.9	2,949	1,970	4,919	99.6
Over 365 days	3,515	3,822	7,337	(271)	7,066	-	-	-	-	3,515	3,822	7,337	100.0
	<u>21,632</u>	<u>13,491</u>	<u>35,123</u>	<u>(1,294)</u>	<u>33,829</u>	<u>10,611</u>	<u>7</u>	<u>10,618</u>	<u>30.2</u>	<u>11,021</u>	<u>13,484</u>	<u>24,505</u>	<u>69.8</u>

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The remaining balance of unbilled revenue aged over 365 days as at 31 May 2020 was RMB3.5 million, of which approximately 93.1% represented the unbilled revenue to our largest customer during the Track Record Period (Customer A) in relation to a project in Wuhan (the “**Wuhan Project**”), the PRC, and two projects in Shanghai, the PRC (the “**Shanghai Project A**” and “**Shanghai Project B**”, respectively) which we have supplied cleanroom wall and ceiling system products with installation services for the construction of a wafer fabrication plant for a memory products manufacturer and two separate semiconductor products manufacturing and trading companies, respectively. Under the contract terms the relevant project, we are only entitled to payment of our services or sales of goods after our Customer A has, for the Shanghai Project A and the Shanghai Project B received the final acceptance and the corresponding payment, and for the Wuhan Project received the final acceptance, from the respective facility owner. As at 31 May 2020, Customer A has yet to receive the final acceptance for the Wuhan Project, the Shanghai Project A and the Shanghai Project B. The Wuhan Project, the Shanghai Project A and the Shanghai Project B accounted for approximately 22.0%, 64.9% and 6.2%, respectively, of the remaining balance of unbilled revenue aged over 365 days as at 31 May 2020. For the remaining approximately 6.9% of the remaining balance of unbilled revenue aged over 365 days as at 31 May 2020, it represented the unbilled revenue to another customer (the “**Zhuzhou Customer**”) in the PRC in relation to a project in Zhuzhou (the “**Zhuzhou Project**”), the PRC, which we have supplied cleanroom wall and ceiling system products for the construction of a wafer fabrication plant for a railway equipment manufacturing company. Under the contract terms of the Zhuzhou Project, we are only entitled to payment of our services or sales of goods after such customer has received the final acceptance from the facility owner. As at 31 May 2020, our customer has yet to receive the final acceptance from the facility owner.

As at 31 May 2020, for the Shanghai Project A, the Shanghai Project B, the Wuhan Project and the Zhuzhou Project, our customers have yet to receive the final acceptance from the facility owners due to overall cleanroom performance not up to the respective facility owner’s expectation. To the best knowledge and information of our Directors, the sub-standard performance was not related to our supply of products nor installation services. We understand that Customer A and the Zhuzhou Customer are closely following up with the facility owners on modification work and will expedite the billing progress. For Shanghai Project A and Shanghai Project B, once Customer A has received the final acceptance and the corresponding payment from the respective facility owner, the Group will be entitled to bill Customer A accordingly. For the Wuhan Project and the Zhuzhou Project, once the final acceptance is issued by the facility owners, the Group will be entitled to bill Customer A and the Zhuzhou Customer accordingly. Based on the discussions with Customer A and the Zhuzhou Customer and to the best knowledge of our Directors, our Directors are not aware of any reasons or circumstances which may lead to non-completion of these projects. In addition, Customer A is the Group’s largest customer with good project completion track record and has never defaulted any payment to the Group during the Track Record Period. For the Zhuzhou Customer, the Group has around 9 years of business relationship with it and it has never defaulted any payment to the Group during the Track Record Period. Based on the foregoing, our Directors considered that no specific provision of bad debt on the unbilled revenue concerning the Shanghai Project A, the Shanghai Project B, the Wuhan Project and the Zhuzhou Project is required.

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During the Track Record Period, retention period of the relevant contracts was in accordance with the terms specified in the relevant contracts. As at 31 May 2020, we had an immaterial amount of retention receivables aged over 24 months of approximately RMB0.2 million. Such amounts are within the retention period as stipulated in the relevant contracts. The remaining balance of retention receivables aged over 365 days of approximately RMB3.6 million as at 31 May 2020 represented the retention monies for contracts of 15 cleanroom projects which retention period as stipulated in the relevant contracts had not expired.

Contract liabilities arise when our customer pays consideration before we recognise the related revenue. When we receive a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract until the revenue recognised on the project exceeds the amount of the deposit. We typically receive a deposit of 10% to 35% on acceptance of manufacturing orders.

Our contract liabilities amounted to approximately RMB2.5 million, RMB2.1 million, RMB4.4 million and RMB4.3 million, as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively, which were primarily attributable to the timing differences related to work performed by us and the certification of payment for such works by our customer as explained above.

Amounts due from/to related parties

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our amounts due from related parties amounted to approximately RMB3.3 million, RMB3.5 million, RMB12,000 and RMB3,000, respectively, whereas the amounts due to related parties amounted to approximately RMB0.1 million, RMB3,000, RMB26,000 and RMB0.1 million, respectively. The following table sets forth the breakdown of the amounts due from/to related parties as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from related parties				
Amounts due from Controlling				
Shareholders	1,852	1,768	–	2
Amounts due from the then				
shareholders/a shareholder	1,450	1,523	12	–
Amount due from related				
companies	7	162	–	1
Total	3,309	3,453	12	3

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	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to related parties				
Amounts due to Controlling Shareholders	10	–	–	34
Amounts due to the then shareholders	44	–	–	4
Amount due to a related company	–	3	26	97
Total	54	3	26	135

Please refer to note 18 to the Accountants' Report set out in Appendix I to this prospectus for details. The amounts due from/to related parties are non-trade in nature, unsecured, interest-free and repayable on demand. All outstanding balances with related parties will be settled prior to the Listing.

Income tax recoverable/payable

The current income tax charge is calculated on the basis of the applicable tax laws and regulations in the PRC, Malaysia and Philippines where we operate and generate revenue which is subject to enterprise income tax.

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our income tax recoverable amounted to approximately RMB4.9 million, RMB7.0 million, RMB5.0 million and RMB2.2 million, respectively. Our income tax recoverable represented the income tax overpaid to tax authorities based on estimated income chargeable and the tax refunded during the year. As at 31 December 2019, approximately RMB2.9 million or 58.6% of the income tax recoverable was brought forward since year of assessment of 2017/18.

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our income tax payable amounted to approximately RMB1.2 million, RMB1.2 million, RMB1.9 million and RMB1.2 million, respectively. Our income tax payable represents the tax charged for assessable profits arising in or derived from carrying on business in the PRC, Malaysia and Philippines.

Financial asset at fair value through profit or loss ("FVTPL")

Our financial assets at FVTPL represent our investment in bank wealth management product issued by a bank in the PRC. The bank guaranteed 100% of the principal amount of such wealth management product and the Group is allowed to withdraw the principal at any time before maturity. This wealth management product is mandated to principally invest in investment instruments with lower risk such as interbank deposits, fixed income instruments and debentures by the bank. During FY2018 and FY2019, we subscribed for principal-guaranteed wealth management product for short-term investment. The product is tied to the 3-month USD LIBOR with the expected return not higher than 4.2% per annum. The whole purpose of such

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investment is to improve our return on cash and bank balances on hand whilst maintaining a similar low credit risk profile as bank fixed deposits. As at the year end or period end, we measure the bank wealth management product at fair value which was estimated based on cash flow discounted using the expected return based on management judgement and estimates. The fair value of the financial assets at FVTPL as at 31 December 2017, 2018 and 2019, and 31 March 2020 was nil, approximately RMB4.0 million, RMB9.0 million and nil, respectively.

Pledged bank deposits

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our restricted bank deposits and short-term bank deposits amounted to approximately RMB3.3 million, RMB1.2 million, RMB0.6 million and RMB0.6 million, respectively. Such bank deposits were pledged for the purpose of the performance, retention monies and advance payment guarantee in respect of the provision of construction services.

Cash and cash equivalents

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our cash and cash equivalents amounted to approximately RMB26.3 million, RMB68.4 million, RMB34.6 million and RMB57.0 million, respectively. Our cash at banks earns interest at floating rates based on daily bank deposit rates. As at 31 December 2017, 2018 and 2019, and 31 March 2020, we had cash and cash equivalents of approximately RMB1.4 million, RMB27.9 million, RMB7.1 million and RMB16.1 million that were denominated in RMB, respectively, which the conversion into other currencies are subject to exchange restrictions imposed by the PRC Government.

Trade and other payables

The following table sets forth the breakdown of our trade and other payables as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	25,189	16,013	35,718	21,004
Other payables				
Accrued expenses	6,323	5,196	7,342	2,794
Other tax payables	197	797	641	87
Other payables	1,060	2,162	2,514	1,541
	7,580	8,155	10,497	4,422
	32,769	24,168	46,215	25,426

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Trade payables

Our trade payables mainly relate to purchases of raw materials from suppliers and payment of subcontracting fees to installation services providers. As at 31 December 2017, 2018 and 2019, and 31 March 2020, our trade payables amounted to approximately RMB25.2 million, RMB16.0 million, RMB35.7 million and RMB21.0 million, respectively.

The following table sets forth our trade payables turnover days for the year/period indicated.

	FY2017	For FY2018	FY2019	3M2020
Trade payables turnover days ^(Note)	84.9	69.9	75.3	169.5

Note: Trade payables turnover days is calculated as the average of the beginning and ending trade and notes payables balances for the year/period, divided by the total cost of sales for that year/period, multiplied by 365 days for FY2017, FY2018 and FY2019, and 90 days for 3M2020.

We were granted by our suppliers credit periods ranging from 30 to 90 days. Our trade payables turnover days were approximately 84.9 days, 69.9 days, 75.3 days and 169.5 days for FY2017, FY2018, FY2019 and 3M2020, respectively. Our trade payables turnover days were within the normal credit term granted by our suppliers except for 3M2020. Our trade payables turnover days increased from FY2018 to FY2019, primarily due to the relatively higher revenue and thus higher cost recognised in November and December 2019. Our trade payables turnover days increased to approximately 169.5 days for 3M2020, which exceeded the normal credit term granted by our suppliers, which was mainly due to (i) the decrease in cost of sales for 3M2020, (ii) the relatively higher trade payables balance as at 31 December 2019 as explained above; and (iii) we were unable to process payment to our suppliers as a result of COVID-19.

The following table sets forth our ageing analysis of trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 90 days	23,787	12,445	31,571	15,105
91 – 180 days	246	426	1,756	4,653
181 – 365 days	246	2,522	715	431
Over 365 days	910	620	1,676	815
Total	25,189	16,013	35,718	21,004

As at the Latest Practicable Date, an aggregate amount of approximately RMB15.4 million, or 73.5%, of our total trade payables as at 31 March 2020 had been settled.

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Other payables

Our other payables mainly comprised accrued staff costs. As at 31 December 2017, 2018 and 2019, and 31 March 2020, our other payables amounted to approximately RMB7.6 million, RMB8.2 million, RMB10.5 million and RMB4.4 million, respectively. The increase in the balance at 31 December 2018 as compared to 31 December 2017 was mainly due to the (i) increase in other payables of approximately RMB1.1 million in relation to listing expenses and (ii) increase in other tax payables of approximately RMB0.6 million, partly offset by the decrease in accrued staff costs of approximately RMB1.1 million. The increase in balance at 31 December 2019 as compared to 31 December 2018 was mainly due to the increase in accrued staff costs of approximately RMB2.1 million. The decrease in balance at 31 March 2020 as compared to 31 December 2019 was mainly due to (i) the decrease in accrued staff costs of approximately RMB4.5 million; and (ii) decrease in other payables of approximately RMB1.0 million in relation to listing expenses.

Lease liabilities

As at 31 December 2017, 2018 and 2019, and 31 March 2020, lease liabilities categorised as non-current liabilities amounted to approximately RMB0.9 million, RMB2.7 million, RMB1.5 million and RMB1.1 million, respectively, whereas lease liabilities categorised as current liabilities amounted to approximately RMB1.5 million, RMB1.6 million, RMB1.6 million and RMB1.5 million, respectively. Our lease liabilities represented our obligation to make lease payments under the finance lease for motor vehicles and premises to operate our business.

Borrowings

As at 31 December 2017, 2018 and 2019, and 31 March 2020, our borrowings amounted to approximately RMB3.3 million, RMB14.9 million, RMB14.7 million and RMB18.0 million, respectively. We obtained a bank loan of RM9.0 million during FY2018 to accommodate the working capital need of one of our subsidiaries in Malaysia in view of the upcoming projects in Malaysia that the Group had commenced negotiation and intended to tender for and would commence in FY2019, so as to provide the Malaysian subsidiary with a greater flexibility in funding its working capital when the projects are secured. Also, our Directors are of the view that obtaining such bank loan can make our potential customers more confident on our financial resources. As the existing PRC law and PRC foreign exchange regulations impose various restrictions affecting the conversion and remittance of foreign currencies out of the PRC, we did not reallocate the cash resources among our subsidiaries in the PRC and Malaysia. Such bank loan was guaranteed by the personal guarantees given by our Controlling Shareholders, and secured by the legal charges over our Malaysia Factory. Our Directors confirm that the personal guarantees from our Controlling Shareholders will be released and replaced by corporate guarantee prior to the Listing. We obtained a bank loan of RMB4.0 million during 3M2020 in PRC for working capital purposes.

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PROPERTY INTEREST AND PROPERTY VALUATION

A reconciliation of the net carrying amount of the Group's property interests as at 31 March 2020 to their fair value as stated in "Appendix III — Valuation Report" to this prospectus is as follows:

	<i>RMB'000</i>
Net carrying amount as at 31 March 2020	24,943
Depreciation	(62)
Exchange difference	<u>147</u>
Net carrying amount as at 31 July 2020	25,028
Valuation surplus as at 31 July 2020	<u>3,199</u>
Valuation as at 31 July 2020 as set out in in "Appendix III — Valuation Report" to this prospectus	<u><u>28,227</u></u>

LIQUIDITY AND CAPITAL STRUCTURE

Our liquidity requirements are primarily attributable to our working capital for our business operations. We have historically financed our operations through a combination of cash generated from our operating activities and external borrowings. As at 31 March 2020, we had cash and cash equivalents of approximately RMB57.0 million.

As at 31 March 2020, our current assets exceeded our current liabilities by approximately RMB110.4 million. Further information of our net current assets during the Track Record Period is set forth in the paragraphs under "Current assets and current liabilities" above.

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The following table sets forth the condensed summary of our consolidated statements of cash flows for the periods indicated:

	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000	3M2020 RMB'000
Operating profit before working capital changes	31,509	42,385	37,260	4,315
Changes in working capital	(23,314)	9,335	(36,606)	6,486
Income taxes (paid)/refund, net	(9,215)	(9,479)	(5,108)	397
Net cash (used in)/generated from operating activities	(1,020)	42,241	(4,454)	11,198
Net cash (used in)/generated from investing activities	(1,218)	(1,907)	(4,781)	9,029
Net cash (used in)/generated from financing activities	(4,536)	1,011	(25,165)	3,373
Net (decrease)/increase in cash and cash equivalents	(6,774)	41,345	(34,400)	23,600
Cash and cash equivalents at the beginning of year/period	32,582	26,278	68,411	34,621
Effect of foreign exchange rate changes	470	788	610	(1,200)
Cash and cash equivalents at the end of the year/period	26,278	68,411	34,621	57,021

Net cash (used in)/generated from operating activities

During the Track Record Period, our cash inflows from operating activities were mainly generated from our sales of cleanroom wall and ceiling systems and cleanroom equipment and provision of installation services. Our cash outflows mainly comprised of payments of purchase of raw materials, staff costs, subcontracting fees to third-party services provider and other operating expenses. Our net cash flow generated from operating activities primarily reflects our profit before income tax, as adjusted for (i) non-cash items, including depreciation of property, plant and equipment and net credit losses of trade receivables, other receivables and contract assets; (ii) working capital changes and (iii) net income tax paid.

For FY2017, we generated approximately RMB31.5 million positive cash flow from our operations before working capital changes but such was offset by the net working capital outflow of approximately RMB23.3 million and income tax paid of approximately RMB9.2 million. As a result, we recorded net cash used in operating activities of approximately RMB1.0 million. During the year, we experienced a net working capital outflow of approximately RMB23.3 million which was mainly because (i) increase in trade and other receivables of approximately RMB23.8 million and contract assets of approximately RMB5.8 million was more than the net increase in trade and other payables and contract liabilities of approximately RMB10.3 million; and (ii) increase in inventory of approximately RMB4.0 million. The increase in trade and other

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receivables and contract assets reflected the increase in revenue in FY2017 (resulting in higher receivables) and higher level of trade receivables and contract assets which were not yet due for payment as significant amount of works was only certified by our customer relating to projects in the PRC before the year end.

For FY2018, we recorded net cash generated from operating activities of approximately RMB42.2 million. This was mainly the result of positive operating profit before working capital changes of approximately RMB42.4 million, net working capital inflow of approximately RMB9.3 million and income tax paid of approximately RMB9.5 million. Our net working capital inflow was mainly attributable to the net effect of (i) the decrease in trade and other receivables of approximately RMB16.3 million, (ii) the decrease in trade and other payables of approximately RMB8.8 million, and (iii) the decrease in contract assets of approximately RMB1.6 million.

For FY2019, we generated approximately RMB37.3 million positive cash flow from our operations before working capital changes but such was offset by the net working capital outflow of approximately RMB36.6 million and net income tax paid of approximately RMB5.1 million. As a result, we recorded net cash used in operating activities of approximately RMB4.5 million. During the year, we experienced a net working capital outflow of approximately RMB36.6 million which was mainly because (i) increase in trade and other receivables of approximately RMB34.6 million and contract assets of approximately RMB28.0 million was more than the increase in trade and other payables and contract liabilities of approximately RMB24.0 million; and (ii) decrease in inventory by approximately RMB2.0 million. The increase in trade and other receivables and contract assets reflected the increase in turnover in FY2019 (resulting in higher receivables) and higher level of trade receivables and contract assets which were not yet due for payment as a result of the relatively higher revenue recognised in November and December 2019.

We will adopt the below policies to improve our operating cash flow, which include:

- (i) preparing cash flow plans for projects with over RMB3.5 million contract value;
- (ii) regularly reviewing the cash flow plans for projects with over RMB3.5 million contract value to identify and address any potential shortfall in short-term cash flow;
- (iii) regularly analysing and comparing the cash flow plan against the actual cash flow to investigate the reasons of variances;
- (iv) considering the cash flow position of our Group before submitting any tender;
- (v) liaising with our customers and overseeing the latest certified progress for our customers;
- (vi) closely monitoring the collection status of our trade receivables and actively following up with our customers for payment;
- (vii) utilising the credit terms provided by our suppliers; and
- (viii) utilising our banking facilities, if any, to cover any potential shortfall in our cash flow position.

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For 3M2020, we recorded net cash generated from operating activities of approximately RMB11.2 million. This was mainly the result of positive operating profit before working capital changes of approximately RMB4.3 million, net working capital inflow of approximately RMB6.5 million and net income tax refund of approximately RMB0.4 million. Our net working capital inflow was mainly attributable to the net effect of (i) the decrease in trade and other payables of approximately RMB20.5 million; (ii) the decrease in trade and other receivables of approximately RMB16.1 million; and (iii) the decrease in contract assets of approximately RMB15.3 million.

Net cash (used in)/generated from investing activities

During the Track Record Period, our cash inflows from investing activities were principally proceeds from disposal of bank wealth management products, proceeds from capital contributions from the Controlling Shareholders, acquisition of a subsidiary (net of cash and cash equivalents) and release of pledged bank deposits. Our cash outflows from investing activities were mainly purchase of bank wealth management products, purchase of property, plant and equipment and investment in pledged bank deposits.

For FY2017, we recorded net cash used in investing activities of approximately RMB1.2 million, which was mainly attributable to the net effect of (i) the increase in pledged bank deposits of approximately RMB2.7 million, (ii) the purchase of property, plant and equipment of approximately RMB1.4 million and (iii) the acquisition of a subsidiary (net of cash and cash equivalents) of approximately RMB2.5 million.

For FY2018, we recorded net cash used in investing activities of approximately RMB1.9 million, which was mainly attributable to the net effect of (i) the net purchase of bank wealth management products of approximately RMB4.0 million, and (ii) the decrease in pledged bank deposits of approximately RMB2.1 million.

For FY2019, we recorded net cash used in investing activities of approximately RMB4.8 million, which was mainly attributable to the net purchase of bank wealth management products of approximately RMB5.0 million.

For 3M2020, we recorded net cash generated from investing activities of approximately RMB9.0 million, which was mainly attributable to the proceeds from disposal of bank wealth management products of approximately RMB9.0 million.

Net cash (used in)/generated from financing activities

Our cash inflow from financing activities mainly comprised proceeds from borrowing and contribution from ultimate shareholders in reorganisation. We used cash in financing activities primarily for dividends paid to our shareholders, repayment of borrowings and repayment of capital element of leases.

For FY2017, we recorded net cash used in financing activities of approximately RMB4.5 million, which was mainly attributable to the net effect of (i) the increase in amounts due from related parties of approximately RMB3.2 million, (ii) proceeds from capital contribution from the Controlling Shareholders of approximately RMB2.5 million, (iii) the repayment of capital element of leases of approximately RMB1.5 million, (iv) the decrease in amounts due to related parties of approximately RMB1.4 million, and (v) the repayment of borrowings of approximately RMB0.7 million.

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For FY2018, we recorded net cash generated from financing activities of approximately RMB1.0 million, which was mainly attributable to the net effect of (i) the proceeds from a borrowing of approximately RMB14.7 million, (ii) the dividends paid of approximately RMB8.1 million, (iii) the repayment of borrowings of approximately RMB3.4 million, and (iv) the repayment of capital element of leases of approximately RMB1.9 million.

For FY2019, we recorded net cash used in financing activities of approximately RMB25.2 million, which was mainly attributable to the effect of (i) the dividends paid of approximately RMB21.8 million, and (ii) the repayment of capital element of leases of approximately RMB2.0 million.

For 3M2020, we recorded net cash generated from financing activities of approximately RMB3.4 million, which was mainly attributable to the proceeds from borrowings of approximately RMB4.0 million in PRC for working capital purposes.

Capital expenditure

Our capital expenditure during the Track Record Period primarily related to the purchase of property, plant and equipment. We have funded our historical capital expenditure through cash flows generated from operating activities. The following table sets forth our capital expenditure by nature during the Track Record Period:

	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000	3M2020 RMB'000
Purchase of furniture, fittings and equipment	120	266	128	19
Purchase of leasehold improvement	72	86	3	—
Purchase of motor vehicles	369	—	816	—
Purchase of plant and machinery	869	136	337	—
Total	1,430	488	1,284	19

Except for the expansion plans and purchase of new factory building and additional machinery disclosed in the section “Business — Our Strategies” and the section “Future Plans and Use of Proceeds”, we had no material planned capital expenditure as at the Latest Practicable Date. Our total investment costs for the expansion plans and purchase of property, plant and equipment are expected to be HK\$98.8 million and HK\$87.6 million, respectively, of which HK\$87.6 million (excluding HK\$11.2 million for leasing new premises for the new PRC factory) is expected to be accounted for as capital expenditure. We expect to fund our capital expenditure principally by the net proceeds from the proposed Listing. Our projected capital expenditures are subject to revision based on any future changes in our business plan, market conditions, and economic and regulatory environment. Please see the sections “Business — Our Strategies” and “Future Plans and Use of Proceeds — Use of proceeds” for further information.

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INDEBTEDNESS

The following table sets forth the amounts of indebtedness as at 31 December 2017, 2018 and 2019, 31 March 2020, and 31 July 2020:

	As at 31 December			As at 31 March	As at 31 July
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current liabilities					
Borrowings	3,295	14,930	14,675	17,992	25,925
Lease liabilities	1,539	1,567	1,629	1,543	1,560
Amounts due to related parties	54	3	26	135	564
	4,888	16,500	16,330	19,670	28,049
Non-current liabilities					
Lease liabilities	890	2,705	1,473	1,081	1,090
	5,778	19,205	17,803	20,751	29,139

As at 31 July 2020, we had total outstanding indebtedness of approximately RMB29.1 million. As at the same day, we had unutilised bank loan facilities of approximately RMB7.8 million.

As at 31 December 2017 and 31 December 2018, 31 December 2019, 31 March 2020 and 31 July 2020, our bank loan of approximately RMB3.3 million, RMB14.9 million, RMB14.7 million, RMB14.0 million and RMB14.1 million, respectively was guaranteed by the personal guarantees given by our Controlling Shareholders and secured by the legal charges over our freehold land and building. As at 31 July 2020, our another bank loan of approximately RMB1.8 million was secured by the bill receivables of approximately RMB1.9 million. Our Directors confirm that all guarantees will be released prior to the Listing.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, there had been no material covenants restricting our ability to raise additional debt or equity financing and we had not breached any financial covenant or defaulted in repayment of bank borrowings that were due.

Save as disclosed above, we did not have any outstanding loans, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credit, hire purchases commitments or other contingent liabilities as at the Latest Practicable Date.

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CONTRACTUAL AND CAPITAL COMMITMENTS

Capital commitments

We had no significant capital commitments as at 31 December 2017, 2018 and the Latest Practicable Date. As at 31 December 2019 and 31 March 2020, we had capital commitments of approximately RMB0.7 million and RMB0.8 million, respectively.

CONTINGENT LIABILITIES

Saved as disclosed in the prospectus, as at the Latest Practicable Date, we did not have any material contingent liabilities or guarantees. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us.

KEY FINANCIAL RATIOS

	<i>Notes</i>	FY2017	FY2018	FY2019	3M2020
Return on equity (%)	<i>(1) and (9)</i>	17.1	20.7	12.9	7.9
Return on total assets (%)	<i>(2) and (9)</i>	14.0	17.1	12.0	5.7
<i>Non-HKFRS Measures</i>					
Adjusted return on equity (%)	<i>(3), (9) and (10)</i>	17.1	21.5	19.6	13.2
Adjusted return on total assets (%)	<i>(4), (9) and (10)</i>	14.0	17.8	17.3	9.5
		As at 31 December			As at 31 March
	<i>Notes</i>	2017	2018	2019	2020
Net debt to equity ratio	<i>(5)</i>	Net cash	Net cash	Net cash	Net cash
Gearing ratio (%)	<i>(6)</i>	5.1	13.7	12.5	14.6
Current ratio (times)	<i>(7)</i>	3.0	3.5	2.6	3.2
Quick ratio (times)	<i>(8)</i>	2.7	3.2	2.4	2.9

Notes:

- (1) Return on equity is calculated based on our net profit attributable to our Shareholders for the reporting year/period divided by the total equity attributable to our Shareholders as at the end of the reporting year/period and multiplied by 100%.
- (2) Return on total assets is calculated based on our net profit for each reporting year/period divided by the total assets as at the end of the reporting year/period and multiplied by 100%.
- (3) Adjusted return on equity is calculated based on our net profit attributable to our Shareholders (before Listing expenses attributable to our equity holders of our company) for each reporting year/period divided by total equity attributable to our Shareholders as at the end of that reporting year/period and multiplied by 100%.

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- (4) Adjusted return on total assets is calculated based on our Adjusted Net Profit for each reporting year/period divided by total assets as at the end of that reporting year/period and multiplied by 100%.
- (5) Net debt to equity ratio is calculated based on our net debt divided by total equity and multiplied by 100%. Net debt is defined as total borrowings and lease liabilities minus cash and cash equivalents.
- (6) Gearing ratio is calculated based on our bank borrowings and lease liabilities divided by total equity as at the end of the reporting year/period and multiplied by 100%.
- (7) Current ratio is calculated based on total current assets divided by the total current liabilities as at the end of the reporting year/period.
- (8) Quick ratio is calculated based on total current assets minus inventories divided by the total current liabilities as at the end of the reporting year/period.
- (9) Calculation of return on equity, return on total assets, adjusted return on equity and adjusted return on total assets are on a full year basis.
- (10) The terms of adjusted return on equity and adjusted return on total assets are not defined under HKFRS. We believe that these non-HKFRS measures provide useful information to investors to understand and evaluate our consolidated results of operations in the same manner as our management review our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed "Financial Information — Summary of Results of Operations — Non-HKFRS measures" for further details.

Return on equity

Our return on equity increased to approximately 20.7% for FY2018, due to the increase in net profit attributable to our Shareholders (after taking into account the Listing expenses) by approximately 48.9% for FY2018 as compared with FY2017 outpaced the increase in our equity attributable to our Shareholders by approximately 23.3% for FY2018.

Our return on equity decreased to approximately 12.9% for FY2019, mainly due to the increase in our equity attributable to our Shareholders by approximately 41.4% for FY2019 resulting from the reorganisation of the Group occurred in FY2019 and the decrease in net profit attributable to our Shareholders (after taking into account the Listing expenses) by approximately 12.1% resulting from the increase in Listing expenses incurred for FY2019.

Our return on equity decreased to approximately 7.9% for 3M2020, mainly due to the significant decrease in net profit (after taking into account the Listing expenses) resulting from the decrease in revenue for 3M2020.

We recorded adjusted return on equity (non-HKFRS measure⁽¹⁾) of 17.1%, 21.5%, 19.6% and 13.2% for FY2017, FY2018, FY2019 and 3M2020, respectively.

Return on total assets

Our return on total assets increased to approximately 17.1% for FY2018 due to the increase in net profit (after taking into account the Listing expenses) by approximately 46.5% for FY2018 as compared with FY2017 outpaced the increase in our total assets by approximately 20.0% for FY2018.

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Our return on total assets decreased to approximately 12.0% for FY2019, mainly due to the decrease in net profit (after taking into account the Listing expenses) resulting from the increase in Listing expenses incurred for FY2019.

Our return on total assets decreased to approximately 5.7% for 3M2020, mainly due to the significant decrease in net profit (after taking into account the Listing expenses) resulting from the decrease in revenue for 3M2020.

We recorded adjusted return on total assets (non-HKFRS measure⁽¹⁾) of approximately 14.0%, 17.8%, 17.3% and 9.5% for FY2017, FY2018, FY2019 and 3M2020, respectively.

Note:

1. Adjusted return on equity is calculated based on our net profit attributable to our Shareholders (before Listing expenses attributable to our equity holders of our Company) for each reporting year divided by total equity attributable to our Shareholders as at the end of that reporting year and multiplied by 100%. Adjusted return on total assets is calculated based on our Adjusted Net Profit for each reporting year divided by total assets as at the end of that reporting year and multiplied by 100%. The terms of adjusted return on equity and adjusted return on total assets are not defined under HKFRS. We believe that these non-HKFRS measures provide useful information to investors to understand and evaluate our consolidated results of operations in the same manner as how our management reviews our performance and to compare the financial results of our operations across accounting periods. Please refer to the paragraph headed “Financial Information — Summary of Results of Operations — Non-HKFRS measures” for further details.

Net debt to equity ratio

Our net debt to equity ratio was nil as at 31 December 2017, 2018 and 2019, and 31 March 2020 as our cash and cash equivalents exceeded our borrowings as at the respective dates.

Gearing ratio

Our gearing ratio was approximately 5.1%, 13.7%, 12.5% and 14.6% as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively. The increase in our gearing ratio from 31 December 2017 to 31 December 2018 was primarily due to the increase in our borrowings by approximately RMB11.6 million as at 31 December 2018. The decrease in our gearing ratio from 31 December 2018 to 31 December 2019 was primarily due to the decrease in total lease liabilities (current and non-current portion) of approximately RMB1.2 million. The increase in our gearing ratio from 31 December 2019 to 31 March 2020 was primarily due to the increase in borrowings by approximately RMB3.3 million as at 31 March 2020.

Current ratio

Our current ratio remained relatively stable at approximately 3.0 times, 3.5 times, 2.6 times and 3.2 times as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively.

Quick ratio

Our quick ratio remained relatively stable at approximately 2.7 times, 3.2 times, 2.4 times and 2.9 times as at 31 December 2017, 2018 and 2019, and 31 March 2020, respectively.

FINANCIAL INFORMATION

LISTING EXPENSES

The total Listing expenses in relation to the Global Offering (based on the mid-point of the Offer Price range), mainly comprising fees paid or payable to professional parties, underwriting fees and commission and the incentive fee that can be payable to the Joint Bookrunners (or any one of them) in the Company's sole and absolute discretion are expected to be approximately RMB61.9 million, which is approximately 52.9% of the gross proceeds from the Global Offering (based on the mid-point of the Offer Price range), of which (i) RMB1.4 million was recognised in our consolidated statements of profit or loss for FY2018; (ii) RMB11.4 million was recognised in our consolidated statements of profit or loss for FY2019; (iii) RMB1.9 million was recognised in our consolidated statements of profit or loss for 3M2020; (iv) approximately RMB13.1 million is expected to be recognised as expenses in our consolidated statements of profit or loss for the nine months ending 31 December 2020; and (v) approximately RMB34.1 million is expected to be capitalised as prepayments and charged against equity upon completion of the Global Offering under the relevant accounting standards.

WORKING CAPITAL CONFIRMATION

Our Directors are of the view that, taking into account the financial resources presently available to us, including the banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, we have sufficient working capital for our present requirements at least in the next 12 months commencing on the date of this prospectus.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 27 of the Accountant's Report as contained in Appendix I to this prospectus, our Directors confirm that these transactions were conducted in our normal course of business and at prices and terms no less than those charged to and contracted with our other third-party suppliers. Our Directors also consider that these related party transactions did not distort our results during the Track Record Period and did not make our historical results not reflective of our future performance.

For the detailed discussion of related party transactions, please refer to note 27 of the Accountant's Report as contained in Appendix I to this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Our Directors confirm that we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our consolidated statements of financial position. We do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

FINANCIAL INFORMATION

RISK MANAGEMENT

In the normal course of business, we are exposed to various types of risks from changes in market rates and prices, including the interest rate, foreign currency, credit and liquidity.

Details of the risk to which we are exposed are set out in note 34 of the Accountant's Report as contained in Appendix I to this prospectus.

DIVIDENDS

During FY2017, FY2018, FY2019, 3M2020 and July 2020, our subsidiaries declared and distributed dividends of nil, approximately RMB8.1 million, RMB25.4 million, nil and RMB15.0 million, respectively, before the Reorganisation. All such dividends had been fully paid and we financed the payment of such dividends by internal resources.

We currently plan to pay a total dividend in respect of each year of approximately 30% to 40% of our consolidated profit attributable to Shareholders for the year ending 31 December 2020 and the years thereafter. When proposing a dividend, we will take into account, among other things, our future operations and earnings, our business development, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as our Directors consider appropriate. There is no requirement or assurance that we will declare and pay any dividends. Any declaration and payment as well as the amount of dividends will be subject to the Articles and the Cayman Companies Law. Any declaration of final dividends will also require the approval of our Shareholders in general meeting. No dividend shall be declared or paid except out of our distributable profit and funds that are lawfully available for distribution under the Cayman Companies Law.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 11 June 2019 and has not carried out any business since the date of its incorporation, save for the transactions related to the Reorganisation. Under the Companies Law (Revised) of the Cayman Islands, subject to satisfaction of the statutory prescribed solvency test, share premium is distributable to our Shareholders as at 31 March 2020.

FINANCIAL IMPACTS OF RECENT OUTBREAK OF COVID-19

In view of the contract and project delays as elaborated under the paragraph headed "Summary — Recent Outbreak of COVID-19 — (b) Our projects", we expect to incur additional expenses for manpower and man-hour to offset the impact of the delay. In addition, according to our hygiene and preventive measures (as elaborated below), employees who travel to other provinces in the PRC or countries and areas with high alert of COVID-19 cases would be subject to compulsory self-quarantine for 14 days, during which they may not be able to fully discharge their business duties but would continue to be remunerated by us. We expect to incur an additional costs of approximately RMB0.5 million as extra labour costs. Furthermore, due to the heightened hygiene and preventive measures undertaken by our Group as elaborated below, our Group has incurred an additional costs of approximately RMB0.2 million. As a result, we expect to incur in aggregate an additional costs of approximately RMB0.7 million as a result of the outbreak of COVID-19.

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As a result of the lockdown measures adopted by various governments in the countries where we operate, completion or progress of our projects were delayed and our financial results for the six months ended 30 June 2020 were adversely affected. Based on our unaudited management accounts for the six months ended 30 June 2020, as compared to that of the corresponding period in 2019, our revenue decreased by around 30% and our gross profit margin decreased by around 2 percentage points. During the six months ended 30 June 2020, we experienced suspension in our operations and on-going projects as a result of the lockdown measures and transportation restrictions as a result of COVID-19 which led to decrease in revenue as compared to the corresponding period in 2019. Furthermore, the decline in revenue also led to a lower operational efficiency and hence lower gross profit margin as some of the components of our costs of sales such as direct labour costs and manufacturing overhead are relatively fixed in nature. Turnover days of trade receivables and contract assets for the six months ended 30 June 2020 of 279.1 days is comparable to that of 281.1 days for 3M2020. The relatively high turnover days are mainly due to (i) delay in payment due to COVID-19; (ii) long outstanding trade receivables which remain outstanding due to specific reasons of the relevant projects; and (iii) low revenue recognised for 3M2020 and six months ended 30 June 2020. As at the Latest Practicable Date, we have not experienced any major settlement issue from our customers. As at 30 June 2020, our liquidity ratios, being current ratio and quick ratio, remained stable as compared to that of 31 March 2020.

As completion or progress of our projects were delayed, our Directors estimate that approximately RMB34 million of our revenue which should have been recognised in the first six months of 2020 would be delayed but expected to be recognised as revenue in 2020 based on the latest project progress and communication with our customers.

Nonetheless, taking into account that (i) our Directors are of the view that the Group is in progress of completing the ongoing projects subject to certain delays due to the outbreak of COVID-19, and the current project schedules as disclosed under “Summary — Recent Outbreak of COVID-19 — (b) Our projects” have been discussed and agreed between our Group and our customers; (ii) none of our ongoing projects have been terminated; (iii) none of the contracts we have submitted tenders for had been aborted; (iv) our business operations resumed to normal after the various lockdown measures in the PRC and Malaysia were relaxed, and we anticipate our business operations in the Philippines will also resume to normal after the restrictions imposed by the government are lifted; and (v) the economic activities in various countries have gradually regained momentum as the outbreak of COVID-19 is more contained, and further based on the assumptions that there will be no further unforeseen interruption to the business operations of our Group, our customers and our supply chain, such as indefinite period of business suspension, travel and shipping restrictions due to further outbreak of COVID-19 in the locations of our business operations and that of our customers and supply chain, our Directors believe that there is no major impact on the demand from our downstream industries for our cleanroom products, and the impact of the COVID-19 is temporary and our business operations will resume to normal after the outbreak of COVID-19 has become more contained and its impact on the global economy has reduced. As at the Latest Practicable Date, we had contracts with an aggregate outstanding contract value, for which revenue had not been recognised during the Track Record Period and is expected to be recognised by December 2020, of (i) approximately RMB97.0 million for the PRC which represents approximately 126.7% of our revenue in the PRC for the nine months from 1 April 2019 to 31 December 2019; and (ii) approximately RMB61.0 million for markets outside PRC which represents approximately 75.0% of our revenue from outside PRC for the nine months from 1 April 2019 to 31 December 2019.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, saved as disclosed in the paragraphs headed “Summary — Recent Developments”, “Business — Recent Outbreak of COVID-19” and “Financial Information — Financial impacts of recent outbreaks of COVID-19”, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 March 2020, being the date on which the latest audited consolidated financial statements of our Group were made up, and there is no event since 31 March 2020 which would materially affect the information shown in the Accountant’s Report set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules had our Shares been listed on the Stock Exchange on that date.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to the paragraph headed “Unaudited pro forma statement of adjusted consolidated net tangible assets” in Appendix II to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see “Business — Our Strategies” for details of our future plans.

REASONS FOR THE LISTING AND GLOBAL OFFERING

To obtain additional funding for our operations and capital requirements

Our Directors consider it necessary to maintain sufficient working capital as we generally rely on cash inflow from our customers to meet our payment obligations to our suppliers, and from time to time there is a mismatch in the cash inflow from customers and cash outflow to our suppliers. Our cash inflow is dependent on prompt settlement of trade receivables by our customers.

In order to ensure the smooth running of our daily operations, we adopt a prudent cash management approach to satisfy our average operating cash outflow requirements. If we face net operating cash outflow and do not have sufficient working capital at that time, we may have to fund our operating costs by obtaining bank borrowings, resulting in additional finance costs and interest rate risk exposure and we still may not be able to meet our payment obligations including our trade payables and implement our expansion plans in a timely manner.

We believe our liquidity management approach had served us well in supporting our business. Nevertheless, external funding (including equity financing) is essential in supporting our business growth and the implementation of our business strategies and future plans and our expected growth in sales.

We plan to invest approximately HK\$98.8 million from FY2020 to FY2021 to implement our expansion plan and purchase operating machineries and equipment required for our production operation. While we had generated on average operating cash flows of RMB12.3 million per year during FY2017–FY2019, we have funding needs for the following reasons:

- (i) based on the abovementioned annual operating cash flows of RMB12.3 million, we would hypothetically generate RMB30.6 million operating cash flows in the next 30 months and the amount is insufficient for us to fully implement our expansion plan;
- (ii) we paid dividends of RMB33.5 million during the Track Record Period, and, subject to our capital requirement and financial position, we intend to continue to pay dividends to our Shareholders in coming years and this will reduce the cash available for financing our expansion plan; and
- (iii) there are always uncertainties in projecting future financial results and cash flows. There is a chance that our business may experience slowdown in the future due to factors beyond our control. Our terms of business with our customers and suppliers, in particular the credit terms, may also change in the future. Any slowdown in our business and/or change of business terms with our customers and suppliers to our disadvantage (such as longer payment term offered to customers and shorter payment term requested by suppliers) would adversely affect our operating cash flows.

FUTURE PLANS AND USE OF PROCEEDS

In view of the above and to cater for uncertainties which may adversely affect our business and operating cash flows, our Directors consider it is reasonable and necessary for us to raise funds from the Listing to finance our expansion plan.

To facilitate the implementation of our business strategies and expansion

Our Directors believe that there will be a steady growth of the cleanroom facility industry. In view of the overall industry growth and in order to capture further market share, our Directors recognise the need for further capital to maintain and expand our business by expanding our production facility and purchasing additional machinery and equipment to expand our production capacity.

While we have considered using debt to finance our business expansion, due to the repayment on demand provision normally imposed by the financiers, our Directors believe that it is more expedient to use long term funding means, such as the net proceeds from the Global Offering, to finance our long term business expansion, which will enable us to maintain and increase our market share and such expansion is crucial for upholding our market competitiveness and long-term sustainability.

Furthermore, banks generally lend on credit risk analysis and may require collateral such as properties as securities and/or personal guarantee of the controlling shareholder and impose certain covenants on gearing ratio, asset backing value and/or dividend payout ratio. Accordingly, our Directors believe it is necessary to increase our equity capital base before we are able to obtain long-term bank financing for our business expansion. Even if we were able to solely rely on bank financing to fund our business expansion, terms such as high interest rates and extra securities would render us less financially flexible and any unfavourable market downturn triggering immediate repayment may expose us to unnecessary solvency and cash flow risk, which is not the most financially sensible option for us.

To establish an efficient and sustainable fund-raising platform

The Listing will allow us to establish an efficient and sustainable fund-raising platform, thereby enabling us to gain direct access to the capital market for secondary fund raising through the issuance of equity and/or debt securities after the Listing to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance for maximising shareholders' return.

The Listing will provide us with the flexibility to raise funds and negotiate and secure more favourable terms from banks independently. The listing status of our Company may also facilitate our Group in obtaining bank borrowings with more favourable terms in the long run.

There is no assurance that the low interest rate environment will be prolonged in the future. In case of any tightening of credit control in Malaysia and/or in the PRC, the interest rate for bank borrowings may be raised, and potentially increase our finance costs. Furthermore, there is no assurance that the bank loan facilities will be made available to us by the relevant banks throughout the entire period for which we require funding.

FUTURE PLANS AND USE OF PROCEEDS

Moreover, in case of economic downturn and an increase in the interest rates for bank borrowings, it may be difficult for us to obtain bank borrowings on favourable terms at times when we require funding timely and we may be more vulnerable if we could not obtain sufficient capital from bank borrowings.

In view of the above, although we had sufficient financial resources to meet the working capital requirements during the Track Record Period, our Directors consider that it is strategically and commercially reasonable and beneficial for us to conduct the Global Offering, and use the net proceeds from the Global Offering to finance the implementation of our future plan as well as the expansion of our business.

To diversify our shareholder base and provide liquidity in trading of our Shares

Our Directors take the view that the Listing will provide liquidity of the Shares which will be freely traded in the Stock Exchange when compared to the limited liquidity of shares that are privately held before the Listing. The highly liquid Hong Kong stock market allows us to expand and diversify our capital base and shareholders base as institutional funds and retail investors in Hong Kong can participate in the equity of our Company, through which the true value of our Group can also be reflected. Hence, our Directors consider that the Global Offering will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the trading of the Shares.

To enhance employees' performance through equity-based incentive scheme and attracting new staff

The Listing will enable our Company to offer publicly tradable shares under the Share Option Scheme to our employees as incentive. As the performance of the Share price will generally relate to our performance, we believe through the Share Option Scheme, our employees will be more motivated to improve our performance to create value for our Shareholders. Our Directors are of the view that the Share Option Scheme will provide incentives to existing staff to continue contributing to our Group and also provide attractive and competitive advantages in recruiting new staff.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering ("**Net Proceeds**") (after deducting underwriting fees, the incentive fee that can be payable to the Joint Bookrunners (or any one of them) in the Company's sole and absolute discretion and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$0.38 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$62.7 million. We intend to apply such Net Proceeds in the following manner:

- (1) approximately 34.0%, or HK\$21.3 million, for the expansion and renovation of our production facilities in the PRC, of which:
 - (i) approximately 14.8%, or HK\$9.2 million, is for leasing the premises for our Second PRC Factory for an initial term of three years;
 - (ii) approximately 6.8%, or HK\$4.3 million, is for setting up our Second PRC Factory; and
 - (iii) approximately 12.4%, or HK\$7.8 million, is for the acquisition of additional machinery for cleanroom wall and ceiling systems and cleanroom equipment production in the PRC;

FUTURE PLANS AND USE OF PROCEEDS

- (2) approximately 34.7%, or HK\$21.8 million, for the expansion of our production facilities in Malaysia, of which:
- (i) approximately 23.9%, or HK\$15.0 million, is for the acquisition of a site and factory building for our New Malaysia Factory. We have not identified the property to be acquired for our New Malaysia Factory as at the Latest Practicable Date;
 - (ii) approximately 5.3%, or HK\$3.3 million, is for the relocation of our production facility to the New Malaysia Factory and expenses for renovation, refurbishment and setting up the New Malaysia Factory; and
 - (iii) approximately 5.5%, or HK\$3.5 million, is for the acquisition of additional machinery for cleanroom wall and ceiling systems and cleanroom equipment production in Malaysia;
- (3) approximately 9.0%, or HK\$5.6 million, for strengthening our sales and marketing, and engineering and support functions in the PRC and Malaysia by hiring additional staff set out below:

Location	Positions	New headcounts in	
		2020	2021
The PRC	Sales and marketing managers	2	2
	Engineers or technicians	3	4
Malaysia	Sales and marketing managers	–	3
	Engineers or technicians	–	4

- (4) approximately 3.5%, or HK\$2.2 million, for strengthening our accounts and administration functions and upgrading our information technology systems to cater for our business growth, of which:
- (i) approximately 3.1%, or HK\$1.9 million, is for hiring the new staff set out below:

Location	Positions	New headcounts in	
		2020	2021
The PRC	Administrative and accounting staff	2	3
Malaysia	Administrative and accounting staff	–	3

- (ii) approximately 0.4%, or HK\$0.3 million, for the acquisition of an enterprise resources planning system and upgrading our information technology system for full integration with our accounting system in the PRC;

FUTURE PLANS AND USE OF PROCEEDS

- (5) approximately 11.9%, or HK\$7.5 million, for our research and development projects, for details of which please see the section “Business – Our Strategies – Continue to invest in research and development to enhance existing products and diversify our product offering”; and
- (6) approximately 6.9%, or HK\$4.3 million, for our general working capital.

Summary of timeline for implementation of our business strategies

We set forth below a summary of the timeline for implementation of our business strategies as disclosed above:

	FY2020	FY2021	FY2022	Total
	HK\$	HK\$	HK\$	HK\$
	(million)	(million)	(million)	(million)
Expected use of proceeds				
(1) PRC				
Expansion and renovation of our PRC production facilities				
– Leasing the premises for Second PRC Factory for an initial term of three years	0.9	3.7	3.7	9.2 ^(Note)
– Renovation of existing PRC office and factory setting up Second PRC Factory	4.3			4.3
– Acquisition of additional machinery for cleanroom walls and ceilings and cleanroom equipment production in the PRC		7.8		7.8
	<u>5.2</u>	<u>11.5</u>	<u>3.7</u>	<u>21.3^(Note)</u>
Sub-total				
(2) Southeast Asia				
Expansion of our production facilities in Malaysia				
– Acquisition of a site and factory building for our New Malaysia Factory		15.0		15.0
– Relocation of our production facility to the New Malaysia Factory, and renovation, refurbishment and setting up the New Malaysia Factory		3.3		3.3
– Acquisition of additional machinery for cleanroom walls and ceilings and cleanroom equipment production in Malaysia		3.5		3.5
		<u>21.8</u>		<u>21.8</u>
Sub-total				

FUTURE PLANS AND USE OF PROCEEDS

	FY2020 HK\$ (million)	FY2021 HK\$ (million)	FY2022 HK\$ (million)	Total HK\$ (million)
(3) Strengthening our sales and marketing network, and enhancing our engineering and business support functions				
– PRC				
• Hiring additional sales and marketing managers	0.2	1.5		1.7
• Hiring additional engineers or technicians	0.2	1.7		1.9
– Malaysia				
• Hiring additional sales and marketing managers		1.2		1.2
• Hiring additional engineers or technicians		0.8		0.8
Sub-total	0.4	5.2		5.6
(4) Strengthening accounts and administration functions and upgrading information technology systems				
– Hiring additional administrative and accounting staff members				
– PRC	0.1	1.1		1.2
– Malaysia		0.7		0.7
– Acquisition of an enterprise resources planning system and upgrading our information technology system	0.3			0.3
Sub-total	0.4	1.8		2.2
(5) R&D projects to enhance existing products and diversify our product offering		←———— 7.5 —————→		7.5
(6) General working capital		←———— 4.3 —————→		4.3
TOTAL				62.7

Note: The figure represents the estimated amount of rent for the premise from October 2020 onwards, taking into account the time for identifying and leasing the suitable premises. We expect to rent the premise for an initial term of three years from October 2020 to September 2023 and as such, we expect to incur approximately HK\$0.9 million for the lease of the premise in FY2023.

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.40, the Net Proceeds will increase by approximately HK\$5.5 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.36, the Net Proceeds will decrease by approximately HK\$5.5 million.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at HK\$0.40 (being the high-end of the indicative Offer Price range), or any price above HK\$0.38, we intend to apply the additional Net Proceeds for our research and development projects set out in paragraph (5) above. If the Offer Price is set at HK\$0.36 (being the low end of the indicative Offer Price range) or any price below HK\$0.38, we intend to reduce the Net Proceeds for the above purposes on a pro-rata basis.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the Net Proceeds are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions for so long as it is in our best interests.

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HONG KONG UNDERWRITERS

The Hong Kong Underwriters are:

Sunfund Securities Limited
Zhongtai International Securities Limited
Mont Avenir Capital Limited

(in alphabetical order as follows)

Ballas Capital Limited
Brilliant Norton Securities Company Limited
First Fidelity Capital (International) Limited
Grand Partners Securities Limited
Lee Go Securities Limited
Realord Asia Pacific Securities Limited
Zinvest Global Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 21 September 2020. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription at the Offer Price on the terms and subject to the conditions set out in this prospectus and the Application Forms. Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and subject to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional upon and subject to (among other things) the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. on the Listing Date.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination with immediate effect by notice (orally or in writing) from the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) to our Company if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any event, circumstance, or series of events, in or affecting the Cayman Islands, Hong Kong, Malaysia, Singapore, Philippines, the PRC, the United States, the United Kingdom, the European Union (as a whole) or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**” and each a “**Relevant Jurisdiction**”), in the nature of force majeure (including,

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without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanction, withdrawal of trading privileges, strike, lock-out, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or

- (ii) any change or development involving a prospective change, or any event, circumstance or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any Relevant Jurisdiction; or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign (“**Authority**”)), New York (imposed at Federal or New York State level or other competent Authority), London, Malaysia, Singapore, Philippines, the PRC, the European Union (as a whole) or any other Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (v) any new law or any change or development involving a prospective change in existing laws or any event or circumstance resulting in a change or development involving a prospective change in the interpretation or application thereof by any court or other competent Authority in or affecting any Relevant Jurisdiction; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, the Euro, the Hong Kong dollar, the Malaysian Ringgit, the Singaporean dollar, the Philippines Peso or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or

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- (viii) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of our Company; or
- (x) any of the executive Directors vacating his or her office; or
- (xi) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than any breach thereof by any of the Sole Sponsor, the Hong Kong Underwriters or the International Underwriters); or
- (xii) an Authority or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiii) save as disclosed in this prospectus, the Application Forms, and any other document issued, given or used in connection with the offering and sale of the Offer Shares or otherwise in connection with the Global Offering, including all amendments or supplements thereto, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xiv) a prohibition on our Company for whatever reason from offering, allotting, issuing, selling or delivering the Shares (including the Shares to be issued pursuant to the exercise of the Share Options) pursuant to the terms of the Global Offering; or
- (xv) any adverse change or development involving a reasonably likely material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, position, prospects or condition, financial or otherwise, or performance of our Group, taken as a whole, of any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (xvi) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xvii) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

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- (xviii) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
- (xix) an order or petition for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with our creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Bookrunners:

- (1) has or will or may have a material adverse effect on the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
 - (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
 - (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
 - (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Joint Bookrunners:
- (i) that any statement contained in any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus or the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest in any material respect and not based on reasonable assumptions in any material respect; or

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- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (iii) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or
- (iv) any breach of, or any event or circumstance rendering untrue, incorrect or misleading in any material respect, any of the warranties given under the Hong Kong Underwriting Agreement (other than any such breach thereof by the Sole Sponsor or the Hong Kong Underwriters); or
- (v) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Share Options) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vi) our Company withdraws this prospectus (and/or any other offering document issued or used in connection with the Global Offering) or the Global Offering; or
- (vii) any expert named in "Appendix V — Statutory and General Information — E. Other Information — 4. Qualification of experts" to this prospectus has withdrawn its consent to being named in this prospectus or the Application Forms or to the issue of this prospectus or the Application Forms; or
- (viii) that, as a result of material adverse and abrupt change in market conditions or otherwise, any material order placed by any investor immediately before the Price Determination Agreement is entered into, has been withdrawn or cancelled, and the Joint Bookrunners, in their sole and absolute discretion after due consideration, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering. For the avoidance of doubt, the right to terminate under this paragraph (viii) is exercisable only from 3:00 p.m. on the day immediately before the Listing Date to 8:00 a.m. on the Listing Date.

UNDERWRITING

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by us

Pursuant to Rule 10.08 of the Listing Rules, except for the issue of shares, the listing of which has been approved by the Stock Exchange, pursuant to a share option scheme under Chapter 17 of the Listing Rules, any capitalisation issue, capital reduction or consolidation or sub-division of Shares, and the issue of shares or securities pursuant to an agreement entered into before the commencement of dealing, the material terms of which have been disclosed in this prospectus, we will not, at any time within six months from the Listing Date, issue any further shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and the Stock Exchange that, except pursuant to the Global Offering (including pursuant to the exercise of the Share Options), he or she shall not and shall procure that the relevant registered holder(s) of the Shares, any associates or companies controlled by him or her, or any nominees or trustees holding the Shares in trust for him or her (as the case may be), shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong (“**Banking Ordinance**”))) for a bona fide commercial loan) any of our Shares or securities in respect of which he or she is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); and
- (b) in the period of a further six months commencing from the expiry of the First Six-month Period (the “**Second Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, (but save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan) any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she (individually) or the Controlling Shareholders (collectively) would cease to be our controlling shareholder (as defined in the Listing Rules).

In addition, in accordance with Note (3) to Rule 10.07 of the Listing Rules, our Controlling Shareholders has jointly and severally undertaken to us and the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or she will:

- (a) when any of our Controlling Shareholders pledges or charges any Shares or securities beneficially owned by him or her in favour of an authorised institution (as defined in the

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Banking Ordinance) for a bona fide commercial loan, immediately inform us in writing of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and

- (b) when any of our Controlling Shareholders receive indications, either verbal or written, from the pledgee or chargee that any of pledged or charged Shares or securities of our Company will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of any of the above matters, if any, by any of our Controlling Shareholders and disclose such matters by way of an announcement in accordance with the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Joint Bookrunners, the Sole Sponsor and the Hong Kong Underwriters that, and our Controlling Shareholders have agreed to procure that, except for the offer and sale of the Offer Shares pursuant to the Global Offering and the exercise of the Share Options, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Half-Year Period**”), our Company will not, and will procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

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- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

Further, in the event that, during the period of six months commencing on the date on which the First Half-year Period expires (the “**Second Half-Year Period**”), our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of our Company, the Joint Bookrunners, the Sole Sponsor and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) at any time during the First Half-Year Period, it/he/she will not:
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, or any such other securities or any interest in any of the foregoing, as applicable) (the “**Relevant Shares**”) or any interest in any company or entity holding, directly or indirectly, any of the Relevant Shares (the “**Holding Entity**”); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Shares or an interest in any Holding Entity; or
 - (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or

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(iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (b) at any time during the Second Half-Year Period, it/he/she will not enter into any of the transactions specified in paragraph (a) (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it will cease to be a Controlling Shareholder (if applicable) of our Company; and
- (c) until the expiry of the Second Half-Year period, in the event that it/he/she enters into any of the transactions specified in paragraph (a) (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it/he/she will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by other Shareholders pursuant to a deed of lock-up undertaking

Each of Douglas Frederick Bockmiller, Lauren Lindquist Bockmiller, Channel Systems Inc., Pacific Panels Inc., Peter Wayne Borris, Luah Kok Lam, Tee Chin Alk and Lim Huey Wen entered into a deed of lock-up undertaking dated 3 September 2020, in favour of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) that, he/she/it will not and, will procure that none of his/her/its associates and companies controlled by him/her/it nor any nominee or trustee holding in trust for him/her/it will, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Underwriters), at any time during the period commencing from the date of this deed until the expiry of six months from the Listing Date:

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any of the Relevant Shares or any interest in any company or entity holding, directly or indirectly, any of the Relevant Shares (the “**Holding Entity**”); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Shares or an interest in any Holding Entity; or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or

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- (d) offer or agree or contract to, or publicly announce any intention to enter into or effect, any transaction described in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions described in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the period from the date of this deed until the expiry of six months from the Listing Date), and further, he/she/it shall, and shall procure that his/her/its associates and companies controlled by him/her/it and nominees or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/her/it or by the registered holder controlled by him/her/it of any Relevant Shares or an interest in any Holding Entity.

Indemnity

We, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us, our Controlling Shareholders or our executive Directors of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that our Company, our Controlling Shareholders and our executive Directors will enter into the International Underwriting Agreement with the Sole Sponsor, the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers to purchase such International Offer Shares.

Under the International Underwriting Agreement, our Company, our Controlling Shareholders and our executive Directors will agree to indemnify the International Underwriters against certain losses which they may suffer including losses as a result of certain claims or liabilities which might be incurred by the International Underwriters.

Underwriting commission and expenses

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) will receive an underwriting commission equal to 18% of the aggregate Offer Price payable in respect of all of the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). The respective entitlements of the Hong Kong Underwriters to the underwriting commission will be paid as separately agreed between the Joint Bookrunners and the Hong Kong Underwriters. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters (but not the Hong Kong

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Underwriters). In respect of the International Offering, we expect to pay an underwriting commission equal to 18% of the aggregate Offer Price payable in respect of all International Offer Shares (including any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). The Company may also in its sole and absolute discretion pay to the Joint Bookrunners (or any one of them) an incentive fee of up to 4% of the aggregate Offer Price payable in respect of all of the Offer Shares.

Based on an Offer Price of HK\$0.38 per Share (being the mid-point of the indicative Offer Price range stated in this prospectus), the total listing expenses after including the incentive fee that can be payable to the Joint Bookrunners (or any one of them) in the Company's sole and absolute discretion are estimated to be approximately RMB61.9 million.

Hong Kong Underwriters' interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Global Offering.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

Independence of the Sole Sponsor

Ballas Capital Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and

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may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares). Whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. Ballas Capital Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange. Sunfund Securities Limited, Zhongtai International Securities Limited and Mont Avenir Capital Limited are the Joint Bookrunners and Joint Lead Managers, while Ballas Capital Limited, Brilliant Norton Securities Company Limited, First Fidelity Capital (International) Limited, Grand Partners Securities Limited, Lee Go Securities Limited, Realord Asia Pacific Securities Limited and Zinvest Global Limited are the Joint Lead Managers, of the Global Offering.

- (i) the Hong Kong Public Offering of 35,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described in “— Hong Kong Public Offering” in this section below; and
- (ii) the International Offering of 315,000,000 Shares (subject to reallocation) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up and to cease on or around, the last day of lodging applications under the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and International Offering respectively may be subject to reallocation.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. Details of the underwriting arrangements are summarised in the section headed “Underwriting” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Share Options and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements.

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Monday, 28 September 2020 and in any event, not later than 12:00 noon on Monday, 5 October 2020.

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company by 12:00 noon on Monday, 5 October 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk) on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates for the Hong Kong Offer Shares are expected to be issued on Wednesday, 7 October 2020 but will only become valid certificates of title at 8:00 a.m. on Thursday, 8 October 2020 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for termination” has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates bearing valid certificates of title do so entirely at their own risk.

HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 35,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (without taking into account any shares which may be issued upon exercise of the Share Options). Subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent 2.5% of our Company’s issued share capital immediately after completion of the Global Offering and the Capitalisation Issue.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— Conditions of the Global Offering” in this section above.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total available Shares under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on

STRUCTURE OF THE GLOBAL OFFERING

application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 17,500,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Stock Exchange's Guidance Letter HKEX-GL91-18 requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- (a) In the event that the International Offer Shares are fully subscribed or oversubscribed under the International Offering:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Bookrunners, at their sole and absolute discretion, may reallocate all or any of the unsubscribed Hong Kong Offer Shares from the Hong Kong Public Offering to the International Offering;
 - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed and the number of Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the initial number of the Hong Kong Offer Shares, then up to 35,000,000 Shares may be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 70,000,000 Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering;
 - (iii) if the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the initial number of the Hong Kong Offer Shares, then up to 70,000,000 Shares may be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 105,000,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Global Offering;
 - (iv) if the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the initial number of the Hong Kong Offer Shares, then up to 105,000,000 Shares may be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 140,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Global Offering; and

STRUCTURE OF THE GLOBAL OFFERING

- (v) if the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the initial number of the Hong Kong Offer Shares, then up to 140,000,000 Shares may be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 175,000,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Global Offering.
- (b) In the event that the International Offer Shares are undersubscribed under the International Offering:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering shall not proceed unless fully underwritten by the Underwriters pursuant to the Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the initial number of the Hong Kong Offer Shares, then up to 35,000,000 Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Shares available for subscription under the Hong Kong Public Offering may increase up to 70,000,000 Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering in the circumstances where (x) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (y) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at HK\$0.36 per Offer Share, being the low-end of the indicative Offer Price range stated in this prospectus.

In the event of a reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may, at their sole and absolute discretion, reallocate International Offer Shares as it deems appropriate from the International Offering to the Hong Kong Public Offering to satisfy in whole or in part excess valid applications under the Hong Kong Public Offering.

The above clawback mechanism complies with paragraph 4.2 of Practice Note 18 of the Listing Rules and the Stock Exchange's Guidance Letter HKEX-GL91-18.

If the Hong Kong Offer Shares are not fully subscribed for, the Joint Bookrunners may, at their sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportion as the Joint Bookrunners deem appropriate. The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may be reallocated as between these offerings at the discretion of the Joint Bookrunners.

STRUCTURE OF THE GLOBAL OFFERING

Applications

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$0.40 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK\$4,040.31 per board lot of 10,000 Offer Shares. If the Offer Price, as finally determined in the manner described in “— Price Determination of the Global Offering” in this section below, is less than the maximum price of HK\$0.40 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

INTERNATIONAL OFFERING

NUMBER OF OFFER SHARES OFFERED

The number of Offer Shares to be initially offered for subscription under the International Offering will be 315,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Global Offering (subject to reallocation). Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent 22.5% of our enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue.

The International Offering is subject to the same conditions as stated in the paragraph headed “— Conditions of the Global Offering” in this section above.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The International Offering will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the book-building process described in the paragraph headed “— Price Determination of the Global Offering” in this section below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Monday, 28 September 2020, and in any event not later than 12:00 noon on Monday, 5 October 2020, by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$0.40 per Share and is expected to be not less than HK\$0.36 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later

STRUCTURE OF THE GLOBAL OFFERING

than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. We will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by our Company with the Joint Bookrunners (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

The final Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Wednesday, 7 October 2020 in the manner set out in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results".

DEALINGS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 8 October 2020, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 8 October 2020, and will be traded in board lots of 10,000.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- are an associate of any of the above; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **IPO App** or the designated website at www.hkeipo.hk under the **HK eIPO White Form** service.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 22 September 2020 until 12:00 noon on Friday, 25 September 2020 from:

(i) any of the following offices of the **Hong Kong Underwriters**:

Sunfund Securities Limited 18/F, Hip Shing Hong Centre
55 Des Voeux Road Central
Hong Kong

Zhongtai International Securities Limited 19/F Li Po Chun Chambers
189 Des Voeux Road Central
Central
Hong Kong

Mont Avenir Capital Limited Rm 3812-3813
38/F, COSCO Tower
183 Queen's Road Central
Sheung Wan
Hong Kong

(in alphabetical order as follows)

Ballas Capital Limited Unit 1802
18/F, 1 Duddell Street
Central
Hong Kong

Brilliant Norton Securities Company Limited Suite 804
8/F, Jubilee Centre
46 Gloucester Road
Wanchai
Hong Kong

First Fidelity Capital (International) Limited Unit 1405
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Grand Partners Securities Limited 9/F, Connaught Harbourfront House
35-36 Connaught Road West
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Lee Go Securities Limited	Unit 02 12/F, West Exchange Tower 322 Des Voeux Road Central Hong Kong
Realord Asia Pacific Securities Limited	Suite 2402 24/F, Jardine House 1 Connaught Place Central Hong Kong
Zinvest Global Limited	Room 3502 Lippo Center, Tower 2 89 Queensway Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch name	Address
Hong Kong Island	Causeway Bay Branch	505 Hennessy Road, Causeway Bay, Hong Kong
Kowloon	Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon
New Territories	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 22 September 2020 until 12:00 noon on Friday, 25 September 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — CHANNEL MICRON PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

Tuesday, 22 September 2020	—	9:00 a.m. to 5:00 p.m.
Wednesday, 23 September 2020	—	9:00 a.m. to 5:00 p.m.
Thursday, 24 September 2020	—	9:00 a.m. to 5:00 p.m.
Friday, 25 September 2020	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 25 September 2020, the last application day or such later time as described in "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists" in this section below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus, in the Application Form, in the **IPO App** and on the designated website under the **HK eIPO White Form** service, and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Bookrunners, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Joint Bookrunners, the Sole Sponsor, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Bookrunners, the Sole Sponsor, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus, in the Application Form, in the **IPO App** and on the designated website under the **HK eIPO White Form** service;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfil the criteria mentioned in the paragraph headed "14. Despatch/Collection of Share Certificates and Refund Monies — Personal Collection" below to collect Share certificate(s)/or refund cheque(s);
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "2. Who Can Apply" in this section above, may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the **IPO App** or the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider through the **IPO App** or the designated website at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 22 September 2020 until 11:30 a.m. on Friday, 25 September 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 25 September 2020 or such later time under “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section below.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the final Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Hong Kong Offer Shares. Instructions for more than 10,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:⁽¹⁾

Tuesday, 22 September 2020	— 9:00 a.m. to 8:30 p.m.
Wednesday, 23 September 2020	— 8:00 a.m. to 8:30 p.m.
Thursday, 24 September 2020	— 8:00 a.m. to 8:30 p.m.
Friday, 25 September 2020	— 8:00 a.m. to 12:00 noon

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 22 September 2020 until 12:00 noon on Friday, 25 September 2020 (24 hours daily, except on Friday, 25 September 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 25 September 2020, the last application day or such later time as described in “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section below.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 25 September 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 10,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the paragraph headed “Structure of the Global Offering — Price Determination of the Global Offering”.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above; or
- Extreme Conditions; and/or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 25 September 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which do not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 25 September 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

HOW TO APPLY FOR HONG KONG OFFER SHARES

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 7 October 2020 on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk) by no later than 8:00 a.m. on Wednesday, 7 October 2020;
- from "IPO Results" function in the **IPO App** or the designated results of allocations website (www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult) with a "search by ID/Business Registration Number" function on a 24-hour basis from 8:00 a.m. on Wednesday, 7 October 2020 to 12:00 midnight on Tuesday, 13 October 2020;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 7 October 2020 to Monday, 12 October 2020 (excluding Saturday, Sunday and public holiday in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 7 October 2020 to Friday, 9 October 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe(s) that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 17,500,000 Hong Kong Offer Shares.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 7 October 2020.

HOW TO APPLY FOR HONG KONG OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by the **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the final Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, 7 October 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 8 October 2020 provided that the Global Offering has become unconditional and the right of termination described in “Underwriting” has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) ***If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 7 October 2020 or such other date as notified by us on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk).

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 7 October 2020, by ordinary post and at your own risk.

(ii) ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for the collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 7 October 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participants stock account as stated in your Application Form on Wednesday, 7 October 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph "11. Publication of Results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 7 October 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 7 October 2020, or such other date as notified by our Company on our website (www.micron.com.my) and the Stock Exchange's website (www.hkexnews.hk) as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 7 October 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 7 October 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Wednesday, 7 October 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 7 October 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 7 October 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 7 October 2020.

HOW TO APPLY FOR HONG KONG OFFER SHARES

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-97, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHANNEL MICRON HOLDINGS COMPANY LIMITED AND BALLAS CAPITAL LIMITED

Introduction

We report on the historical financial information of Channel Micron Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-97, which comprises the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 March 2020, and the statements of financial position of the Company as at 31 December 2019 and 31 March 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-97 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 22 September 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's consolidated financial position as at 31 December 2017, 2018 and 2019 and 31 March 2020, the Company's financial position as at 31 December 2019 and 31 March 2020 and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

Review of Stub Period Comparative Financial Information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended 31 March 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 respectively to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company and the subsidiaries now comprising the Group in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

22 September 2020

Lin Ching Yee Daniel

Practising Certificate No.: P02771

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December			Three months ended 31 March	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Revenue	4	138,269	177,548	206,169	48,239	26,636
Cost of sales		(79,572)	(107,575)	(125,414)	(27,430)	(15,055)
Gross profit		58,697	69,973	80,755	20,809	11,581
Other income	5	1,343	1,753	1,919	264	301
Other gains and (losses)	6	(2,017)	110	939	(275)	522
Selling and distribution costs		(7,139)	(8,397)	(9,021)	(1,640)	(2,264)
Administrative and other operating expenses		(16,413)	(15,744)	(23,376)	(3,557)	(2,916)
Research and development expenses		(6,111)	(5,362)	(6,240)	(1,310)	(900)
Listing expenses		–	(1,405)	(11,444)	(1,052)	(1,850)
Finance costs	7	(280)	(220)	(684)	(163)	(150)
Profit before income tax	8	28,080	40,708	32,848	13,076	4,324
Income tax expense	10	(6,054)	(8,438)	(6,919)	(2,378)	(1,521)
Profit for the year/period		<u>22,026</u>	<u>32,270</u>	<u>25,929</u>	<u>10,698</u>	<u>2,803</u>

	Note	Year ended 31 December			Three months ended 31 March	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Other comprehensive income/(expense)						
<i>Items that will not be reclassified subsequently to the profit or loss:</i>						
Surplus/(Deficit) on revaluation of freehold land and building held for own use		1,620	216	543	–	(1,281)
Deferred tax arising from revaluation of freehold land and building		(61)	(21)	(642)	–	130
		1,559	195	(99)	–	(1,151)
<i>Item that will be reclassified subsequently to the profit or loss:</i>						
Exchange differences on translation of foreign operations		2,759	2,696	1,732	(963)	(2,784)
Other comprehensive income/(expense) for the year/period, net of tax		4,318	2,891	1,633	(963)	(3,935)
Total comprehensive income/(expense) for the year/period		26,344	35,161	27,562	9,735	(1,132)
Profit for the year/period attributable to:						
Equity holders of the Company		13,899	20,696	18,184	6,406	2,776
Non-controlling interests		8,127	11,574	7,745	4,292	27
		22,026	32,270	25,929	10,698	2,803
Total comprehensive income/(expense) for the year/period attributable to:						
Equity holders of the Company		17,565	23,180	19,790	5,615	(1,159)
Non-controlling interests		8,779	11,981	7,772	4,120	27
		26,344	35,161	27,562	9,735	(1,132)
		RMB cents	RMB cents	RMB cents	RMB cents (unaudited)	RMB cents
Earnings per share for profit attributable to equity holders of the Company						
Basic and diluted	13	1.32	1.97	1.73	0.61	0.26

Consolidated Statements of Financial Position

	Note	As at 31 December			As at
		2017	2018	2019	31 March
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	14	31,486	34,169	34,556	31,473
Deferred tax assets	24	2,623	2,026	3,071	3,182
		<u>34,109</u>	<u>36,195</u>	<u>37,627</u>	<u>34,655</u>
Current assets					
Inventories	15	12,608	11,732	9,621	13,813
Trade and other receivables	16	49,973	35,379	70,242	53,569
Contract assets	17	23,217	21,800	48,849	33,829
Amounts due from related parties	18	3,309	3,453	12	3
Income tax recoverable		4,866	6,969	4,962	2,153
Financial assets at fair value through profit or loss ("FVTPL")	19	–	4,000	9,000	–
Pledged bank deposits	20	3,250	1,188	622	622
Cash and cash equivalents	20	26,278	68,411	34,621	57,021
		<u>123,501</u>	<u>152,932</u>	<u>177,929</u>	<u>161,010</u>
Current liabilities					
Trade and other payables	21	32,769	24,168	46,215	25,426
Contract liabilities	17	2,522	2,141	4,441	4,342
Amounts due to related parties	18	54	3	26	135
Lease liabilities	22	1,539	1,567	1,629	1,543
Borrowings	23	3,295	14,930	14,675	17,992
Income tax payable		1,205	1,211	1,924	1,203
		<u>41,384</u>	<u>44,020</u>	<u>68,910</u>	<u>50,641</u>
Net current assets		<u>82,117</u>	<u>108,912</u>	<u>109,019</u>	<u>110,369</u>
Total assets less current liabilities		<u>116,226</u>	<u>145,107</u>	<u>146,646</u>	<u>145,024</u>

	Note	As at 31 December			As at
		2017 RMB'000	2018 RMB'000	2019 RMB'000	31 March 2020 RMB'000
Non-current liabilities					
Lease liabilities	22	890	2,705	1,473	1,081
Deferred tax liabilities	24	2,514	2,559	3,272	3,174
		<u>3,404</u>	<u>5,264</u>	<u>4,745</u>	<u>4,255</u>
Net assets		<u>112,822</u>	<u>139,843</u>	<u>141,901</u>	<u>140,769</u>
EQUITY					
Share capital	25	–	–	89	89
Reserves	26	81,045	99,921	141,156	139,997
Equity attributable to equity holders of the Company		<u>81,045</u>	<u>99,921</u>	<u>141,245</u>	<u>140,086</u>
Non-controlling interests		<u>31,777</u>	<u>39,922</u>	<u>656</u>	<u>683</u>
Total equity		<u>112,822</u>	<u>139,843</u>	<u>141,901</u>	<u>140,769</u>

Statements of Financial Position of the Company

	<i>Note</i>	As at 31 December 2019 RMB'000	As at 31 March 2020 RMB'000
ASSET AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		114,848	114,848
Current liabilities			
Other payables		—	112
Net current liabilities		—	112
Net asset		114,848	114,736
EQUITY			
Share capital	25	89	89
Reserves	26	114,759	114,647
Total equity		114,848	114,736

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Company								
	Share capital RMB'000 (note 25)	Capital reserve RMB'000 (note 26)	Statutory reserve RMB'000 (note 26)	Translation reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2017	-	14,278	2,315	(2,404)	12,062	35,821	62,072	21,819	83,891
Issuance of share capital of Channel Systems (Shanghai) Co. Ltd. ("Channel Systems (Shanghai)") from retained profits	-	13,669	-	-	-	(13,669)	-	-	-
Capital contributions from the Controlling Shareholders and non-controlling interests (note 28)	-	1,408	-	-	-	-	1,408	1,079	2,487
Issuance of share capital of Channel CR Material (Shanghai) Co. Ltd. ("Channel CR Material") upon incorporation from non-controlling interests	-	-	-	-	-	-	-	100	100
Transfer to statutory reserve	-	-	1,515	-	-	(1,515)	-	-	-
Transactions with equity holders	-	15,077	1,515	-	-	(15,184)	1,408	1,179	2,587
Profit for the year	-	-	-	-	-	13,899	13,899	8,127	22,026
Other comprehensive income for the year:									
Surplus on revaluation of freehold land and building held for own use	-	-	-	-	1,620	-	1,620	-	1,620
Deferred tax arising from revaluation of freehold land and building	-	-	-	-	(61)	-	(61)	-	(61)
Exchange differences on translation of foreign operations	-	-	-	2,107	-	-	2,107	652	2,759
Total comprehensive income for the year	-	-	-	2,107	1,559	13,899	17,565	8,779	26,344
As at 31 December 2017	-	29,355	3,830	(297)	13,621	34,536	81,045	31,777	112,822

Attributable to equity holders of the Company									
	Share capital RMB'000 (note 25)	Capital reserve RMB'000 (note 26)	Statutory reserve RMB'000 (note 26)	Translation reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2018	-	29,355	3,830	(297)	13,621	34,536	81,045	31,777	112,822
2018 dividends (note 12)	-	-	-	-	-	(4,607)	(4,607)	(3,533)	(8,140)
Acquisition of additional interests in subsidiaries (note 29)	-	53	-	-	-	250	303	(303)	-
Transfer to statutory reserve	-	-	1,512	-	-	(1,512)	-	-	-
Transactions with equity holders	-	53	1,512	-	-	(5,869)	(4,304)	(3,836)	(8,140)
Profit for the year	-	-	-	-	-	20,696	20,696	11,574	32,270
Other comprehensive income for the year:									
Surplus on revaluation of freehold land and building held for own use	-	-	-	-	216	-	216	-	216
Deferred tax arising from revaluation of freehold land and building	-	-	-	-	(21)	-	(21)	-	(21)
Exchange differences on translation of foreign operations	-	-	-	2,289	-	-	2,289	407	2,696
Total comprehensive income for the year	-	-	-	2,289	195	20,696	23,180	11,981	35,161
As at 31 December 2018	-	29,408	5,342	1,992	13,816	49,363	99,921	39,922	139,843

Attributable to equity holders of the Company

	Share capital RMB'000 (note 25)	Capital reserve RMB'000 (note 26)	Statutory reserve RMB'000 (note 26)	Translation reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2019	-	29,408	5,342	1,992	13,816	49,363	99,921	39,922	139,843
Issuance of share capital of the Company upon incorporation (note 25(a))	-*	-	-	-	-	-	-*	-	-*
2019 dividends (note 12)	-	-	-	-	-	(17,678)	(17,678)	(7,706)	(25,384)
Issuance of share capital upon the Reorganisation (note 25(b))	89	8,938	-	1,231	-	28,954	39,212	(39,332)	(120)
Transfer to statutory reserve	-	-	1,536	-	-	(1,536)	-	-	-
Transactions with equity holders	89	8,938	1,536	1,231	-	9,740	21,534	(47,038)	(25,504)
Profit for the year	-	-	-	-	-	18,184	18,184	7,745	25,929
Other comprehensive income for the year:									
Surplus on revaluation of freehold land and building held for own use	-	-	-	-	543	-	543	-	543
Deferred tax arising from revaluation of freehold land and building	-	-	-	-	(642)	-	(642)	-	(642)
Exchange differences on translation of foreign operations	-	-	-	1,705	-	-	1,705	27	1,732
Total comprehensive income for the year	-	-	-	1,705	(99)	18,184	19,790	7,772	27,562
As at 31 December 2019	89	38,346	6,878	4,928	13,717	77,287	141,245	656	141,901

Attributable to equity holders of the Company

	Share capital RMB'000 (note 25)	Capital reserve RMB'000 (note 26)	Statutory reserve RMB'000 (note 26)	Translation reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2020	89	38,346	6,878	4,928	13,717	77,287	141,245	656	141,901
Profit for the period	-	-	-	-	-	2,776	2,776	27	2,803
Other comprehensive expense for the period:									
Deficit on revaluation of freehold land and building held for own use	-	-	-	-	(1,281)	-	(1,281)	-	(1,281)
Deferred tax arising from revaluation of freehold land and building	-	-	-	-	130	-	130	-	130
Exchange differences on translation of foreign operations	-	-	-	(2,784)	-	-	(2,784)	-	(2,784)
Total comprehensive expense for the period	-	-	-	(2,784)	(1,151)	2,776	(1,159)	27	(1,132)
As at 31 March 2020	89	38,346	6,878	2,144	12,566	80,063	140,086	683	140,769

Attributable to equity holders of the Company

	Share capital RMB'000 (note 25)	Capital reserve RMB'000 (note 26)	Statutory reserve RMB'000 (note 26)	Translation reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2019 (audited)	-	29,408	5,342	1,992	13,816	49,363	99,921	39,922	139,843
2019 dividend declared (note 12)	-	-	-	-	-	(15,217)	(15,217)	(5,919)	(21,136)
Transaction with equity holders	-	-	-	-	-	(15,217)	(15,217)	(5,919)	(21,136)
Profit for the period	-	-	-	-	-	6,406	6,406	4,292	10,698
Other comprehensive expense for the period:									
Exchange differences on translation of foreign operations	-	-	-	(791)	-	-	(791)	(172)	(963)
Total comprehensive income for the period	-	-	-	(791)	-	6,406	5,615	4,120	9,735
As at 31 March 2019 (unaudited)	-	29,408	5,342	1,201	13,816	40,552	90,319	38,123	128,442

* The balance represented an amount less than RMB1,000.

Consolidated Statements of Cash Flows

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from operating activities					
Profit before income tax	28,080	40,708	32,848	13,076	4,324
Adjustments for:					
Bargain purchase	(788)	–	–	–	–
Depreciation of property, plant and equipment	2,625	2,716	2,808	693	726
(Gains)/Losses on disposal of property, plant and equipment, net	(23)	19	(175)	–	–
Credit losses/(Reversal of credit loss) of trade receivables, net	773	(1,156)	753	(21)	(613)
Credit losses of other receivables	–	11	7	–	–
Credit losses/(Reversal of credit loss) of contract assets, net	279	(81)	1,031	(81)	(515)
Write-down/(Reversal of write-down) of inventories to net realisable value, net	74	320	187	(97)	167
Unrealised exchange losses/(gains), net	529	147	(72)	(47)	124
Interest expense	280	220	684	163	150
Interest income	(320)	(519)	(811)	(131)	(48)
Operating profit before working capital changes	31,509	42,385	37,260	13,555	4,315
(Increase)/Decrease in inventories	(3,988)	758	2,030	(254)	(4,540)
(Increase)/Decrease in trade and other receivables	(23,838)	16,319	(34,635)	(4,223)	16,072
(Increase)/Decrease in contract assets	(5,787)	1,567	(27,970)	2,473	15,349
Increase/(Decrease) in trade and other payables	13,917	(8,849)	21,761	3,056	(20,452)
(Decrease)/Increase in contract liabilities	(3,618)	(460)	2,208	(661)	57
Cash generated from operations	8,195	51,720	654	13,946	10,801
Income taxes refund	–	–	3,900	–	2,622
Income taxes paid	(9,215)	(9,479)	(9,008)	(2,928)	(2,225)
<i>Net cash (used in)/generated from operating activities</i>	<u>(1,020)</u>	<u>42,241</u>	<u>(4,454)</u>	<u>11,018</u>	<u>11,198</u>

	Note	Year ended 31 December			Three months ended 31 March	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from investing activities						
Purchase of property, plant and equipment		(1,430)	(488)	(1,284)	(45)	(19)
Proceeds from disposal of property, plant and equipment		55	–	298	–	–
Acquisition of a subsidiary (net of cash and cash equivalents acquired)		2,518	–	(120)	–	–
Purchase of bank wealth management products		–	(55,500)	(56,500)	(15,000)	–
Proceeds from disposal of bank wealth management products		–	51,500	51,500	6,000	9,000
Change in pledged bank deposits		(2,681)	2,062	566	212	–
Interest received		320	519	759	131	48
<i>Net cash (used in)/generated from investing activities</i>		<u>(1,218)</u>	<u>(1,907)</u>	<u>(4,781)</u>	<u>(8,702)</u>	<u>9,029</u>
Cash flows from financing activities						
Proceeds from issuance of share capital in Channel CR Material		100	–	–	–	–
Proceeds from capital contributions from the Controlling Shareholders		2,487	–	–	–	–
Change in amounts due from related parties		(3,184)	(26)	(142)	(295)	36
Change in amounts due to related parties		(1,433)	(52)	(26)	97	107
Proceeds from borrowings		–	14,746	–	–	4,000
Repayment of borrowings		(683)	(3,405)	(583)	(159)	(159)
Interest paid		(280)	(220)	(684)	(163)	(150)
Repayment of capital element of leases		(1,543)	(1,892)	(1,957)	(411)	(461)
Dividends paid		–	(8,140)	(21,773)	(17,525)	–
<i>Net cash (used in)/generated from financing activities</i>		<u>(4,536)</u>	<u>1,011</u>	<u>(25,165)</u>	<u>(18,456)</u>	<u>3,373</u>
Net (decrease)/increase in cash and cash equivalents		<u>(6,774)</u>	<u>41,345</u>	<u>(34,400)</u>	<u>(16,140)</u>	<u>23,600</u>
Cash and cash equivalents at the beginning of the year/period		32,582	26,278	68,411	68,411	34,621
Effect of foreign exchange rate changes		470	788	610	(462)	(1,200)
Cash and cash equivalents at the end of the year/period	20	<u>26,278</u>	<u>68,411</u>	<u>34,621</u>	<u>51,809</u>	<u>57,021</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION AND BASIS OF PRESENTATION AND REORGANISATION

1.1 General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the laws of the Cayman Islands on 11 June 2019. The addresses of the registered office and the principal place of business of the Company are disclosed in “Corporate Information” to the Prospectus.

The Company is an investment holding company and its subsidiaries' principal activities are disclosed in paragraphs headed “Our Corporate Development — Our Group” in the section headed “History and Development” to the Prospectus (the “Listing Business”).

The ultimate controlling parties of the Group are Ng Yew Sum, Francis Chia Mong Tet, Chang Chin Sia, Ng Boon Hock, Chin Sze Kee, Law Eng Hock, Yap Chui Fan, Lim Kai Seng, Loh Wei Loon and Phang Chee Kin (collectively referred to as the “Controlling Shareholders”).

The Company and its subsidiaries now comprising the Group underwent a group reorganisation (the “Reorganisation”) as set out in paragraphs headed “Reorganisation” in the section headed “History and Development” to the Prospectus. The Reorganisation was completed on 19 August 2019.

In this Historical Financial Information, certain English name of the companies referred herein represent the management's best effort to translate the Chinese name of the companies as no English name has been registered.

At each reporting period and the date of this report, the Company had direct and indirect investments in its subsidiaries, all of which are private limited liability companies, the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment	Registered/ Issued and fully paid up capital at the end of the Track Record Period	Effective equity interest attributable to the Group				Date of this report	Principal activity
			As at 31 December		As at 31 March			
			2017	2018	2019	2020		
Channel Micron International Limited (“Channel Micron (BVI)”) (note a)	British Virgin Islands, 12 June 2019	4 ordinary shares	N/A	N/A	100%	100%	100%	Investment holding
Channel Systems International Limited (“Channel Systems (HK)”) (note b)	Hong Kong, 21 June 2019	2 ordinary shares	N/A	N/A	100%	100%	100%	Investment holding

Company name	Place and date of incorporation/ establishment	Registered/ Issued and fully paid up capital at the end of the Track Record Period	Effective equity interest attributable to the Group				Date of this report	Principal activity
			As at 31 December		As at 31 March			
			2017	2018	2019	2020		
Channel Systems Asia Sdn. Bhd. ("Channel Systems (Asia)") (note c)	Malaysia, 25 March 1999	Malaysian Ringgit ("RM") 5,000,000	57%	57%	100%	100%	100%	Design, manufacture and marketing of cleanroom walls and component parts for cleanroom facilities and high technology plants
CSA Technic Sdn. Bhd. ("CSA Technic") (note c)	Malaysia, 24 August 2015	RM300,000	57%	57%	100%	100%	100%	Trading of cleanroom walls and ceiling systems and component parts for cleanroom facilities and high technology plants
Channel Systems (Shanghai) 捷能系統建材 (上海) 有限公司 (note d)	The People's Republic of China (the "PRC"), 18 February 2004	United States Dollar ("USD") 3,850,000	57%	57%	100%	100%	100%	Production and sale of building materials for cleanroom walls and ceiling systems doors, windows and lighting equipment, and provide related after-sales service
Channel CR Material 捷能新型建材 (上海) 有限公司 (note d)	The PRC, 20 June 2017	RMB1,000,000	51%	53%	94%	94%	94%	Installation and wholesale of building materials for cleanroom walls and ceiling systems doors, windows and lighting equipment, and provide related after-sales service
Micron (M) Sdn. Bhd. ("Micron (M)") (note c)	Malaysia, 19 June 1989	RM568,000	100%	100%	100%	100%	100%	Cleanroom design and engineering works, trading and installation of cleanroom equipment, component and parts and air filtration system
Micron Technology (M) Sdn. Bhd. (note c)	Malaysia, 25 September 1995	RM1,650,000	100%	100%	100%	100%	100%	Design and manufacture of fan filters and other equipment for cleanroom facilities and high-technology plants
Max Micron Precision Sdn. Bhd. ("Max Micron") (note c)	Malaysia, 13 July 2012	RM300,000	89%	100%	100%	100%	100%	Dormant
Micron Cleanroom (Philippines) Inc. (note e)	Philippines, 12 February 2009	Philippine Peso ("PHP") 9,490,000	100%	100%	100%	100%	100%	Manufacture and trading of cleanroom equipment and design and installation of cleanrooms for commercial and industrial use

Note:

- (a) No audited financial statements have been prepared as it is not required to issue any audited financial statements under the statutory requirement in its place of incorporation.
- (b) No audited financial statements have been prepared since the date of incorporation.
- (c) The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards issued by Malaysian Accounting Standards Board and the International Accounting Standards Board (“IASB”) respectively and were audited by Grant Thornton, Chartered Accountants, Malaysia.
- (d) The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with relevant accounting principles and financial regulations applicable to the enterprises established in the PRC (the “PRC GAAP”) and were audited by Shanghai Zhongqinwanxin Certified Public Accountants Co., Ltd (上海中勤萬信會計師事務所有限公司).
- (e) The statutory financial statements for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities which were adopted by the Financial Reporting Standards Council from the pronouncements issued by IASB and were audited by Cabauatan, Lee-Rosales & Co., Certified Public Accountants.

All companies now comprising the Group have adopted 31 December as their financial year end date.

1.2 Basis of presentation and reorganisation

Pursuant to the Reorganisation as more fully explained in the paragraphs headed “Reorganisation” in the section headed “History and Development” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 19 August 2019. During the Track Record Period, Channel Systems (Asia), Channel Systems (Shanghai) and Micron (M) were controlled by the Controlling Shareholders.

Pursuant to the Reorganisation, which was completed by interspersing the Company, Channel Micron (BVI) and Channel Systems (HK) between Channel Systems (Asia), Channel Systems (Shanghai) and Micron (M) and the Controlling Shareholders, the Company became the holding company of the companies now comprising the Group on 19 August 2019. The Group is under the common control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the Track Record Period which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared using the merger basis of accounting as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019, or since their respective dates of incorporation and/or establishment, whichever was shorter.

The consolidated statements of financial position as at 31 December 2017 and 2018 have been prepared to present the financial position of the Group as if the current group structure had been in existence as at the respective dates. The assets and liabilities of the companies now comprising the Group are combined using their historical carrying amounts prior to the Reorganisation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA which are effective for the accounting period beginning on 1 January 2020 throughout the Track Record Period. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the periods presented in the Historical Financial Information.

The Historical Financial Information has been prepared on the historical cost basis except for freehold land and building which are stated at revalued amounts and financial assets at FVTPL. The Historical Financial Information is presented in RMB, which is the functional currency of the Company and its major subsidiaries, and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

2.2 Issued but not yet effective HKFRSs

The Group has not adopted early the following new and amended HKFRSs which have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁶
Amendments to HKFRS 16	COVID-19 — Related Rent Concessions ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ³

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ Effective date not yet determined

⁶ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors of the Company anticipate that all of the new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of these new and amended HKFRSs. All of these new and amended HKFRSs are not expected to have a material impact on the Group's Historical Financial Information.

2.3 Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Historical Financial Information. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within the equity, separately from the equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the equity holders of the Company.

Changes in the Group's investments in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in the other comprehensive income and accumulated in the equity, the amounts previously recognised in the other comprehensive income and accumulated in the equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to the profit or loss or transferred directly to the retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 “Financial Instruments” or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Acquisition accounting for business combination

Except for business combinations under common control, acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former equity holders of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in the profit or loss as bargain purchase gain.

Merger accounting for business combination involving business under common control

The Historical Financial Information incorporates the financial statements of the combined entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

The Historical Financial Information is presented as if the entities or businesses had been consolidated at the end of each reporting period or when they first came under common control, whichever is shorter.

2.4 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

In the Historical Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this translation have been recognised in the other comprehensive income and accumulated separately in the translation reserve in equity.

2.5 Property, plant and equipment

Property, plant and equipment (other than freehold land and building held for administrative purpose and construction in progress as described below) are initially recognised at acquisition cost or manufacturing cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Freehold land and building held for administrative purpose are stated at fair value less accumulated depreciation, if any, and accumulated impairment losses, if any. Any revaluation surplus is recognised in other comprehensive income and credited to "revaluation reserve" in the equity. To the extent that any revaluation decrease or impairment loss has previously been recognised in the profit or loss, a revaluation increase is credited to the profit or loss with the remaining part of the increase recognised in the other comprehensive income. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged to the other comprehensive income to the extent of any revaluation surplus in the equity relating to this asset and any remaining decrease recognised in the profit or loss.

Construction in progress are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Right-of-use assets included the rights to use certain properties under leases are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Right-of-use assets are subsequently depreciated over the shorter of the assets' useful lives and the lease term using the straight-line method. The estimated useful lives of right-of-use asset are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Depreciation is recognised so as to write-off the cost or valuation of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Building	2% or over the lease term whichever is shorter
Furniture, fittings and equipment	10% – 25%
Leasehold improvement	15% or over the lease term whichever is shorter
Motor vehicles	20%
Plant and machinery	5% – 20%
Right-of-use assets	Over the lease term

Estimates of residual value and useful life are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss. Any revaluation surplus remaining in the equity is transferred to retained profits upon the disposal of freehold land and building carried at revalued amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to the profit or loss during the financial period in which they are incurred.

2.6 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the profit or loss as a bargain purchase gain.

2.7 Financial instruments

Financial assets

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at FVTPL, plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statements of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- FVTPL; or
- fair value through other comprehensive income (“FVOCI”).

The classification is determined by both:

- the entity’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in the profit or loss are presented within finance costs, other income or other financial items, except for expected credit losses (“ECL”) of trade receivables which is presented within “administrative and other operating expenses”.

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in “other income” in the profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group’s pledged bank deposits, cash and cash equivalents, trade and other receivables and amounts due from related parties fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that are held within a different business model other than “hold to collect” or “hold to collect and sell” are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under HKFRS 9 apply.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables, amounts due to related parties and lease liabilities.

Financial liabilities (excluding lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (excluding lease liabilities) are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in the profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the profit or loss are included within "finance costs" or "other gains and losses".

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade and other payables and amounts due to related parties

Trade and other payables and amounts due to related parties are recognised initially at their fair values and subsequently measured at amortised cost, using the effective interest method.

Lease liabilities

The accounting policy for lease liabilities is set out in note 2.12.

2.8 Impairment of financial assets and contract assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under HKFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and retention receivables and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making

this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in note 34.4.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. It excludes borrowing costs.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.11 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.15) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.8 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.7).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.15). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.7).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.12 Leases

The Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contain an identified asset, which is either explicitly identified in the contract or implicitly, specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease, the Group allocates the consideration in the contract to each lease on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the occurrence of payment.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On the consolidated statements of financial position, right-of-use assets have been included in property, plant and equipment.

2.13 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required

to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.14 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to the equity transaction.

2.15 Revenue recognition

Revenue arises mainly from the sales of goods and the cleanroom projects by the Group to external customers.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/or as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of goods

Revenue from the sale of goods for a fixed fee is recognised when (or as) the Group transfers control of the assets to the customer. For stand-alone sales of goods that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

Cleanroom projects

Revenue from cleanroom projects is recognised over time during the course of construction by reference to the customer-certified progress report (which is reference to the amount of completed works certified by the customers) as the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment with a reasonable proportion of the expected profit margin for performance completed to date based on the terms of contracts for the cleanroom projects. The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

For contracts that contain variable consideration (variation order of construction work), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Contract costs that related to performance obligations are recognised when incurred. When the outcome of the cleanroom projects cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

The Group generally provides for warranties for repairs to any defects and does not provide extended warranties in its sales of goods and cleanroom projects with customers. As such, most existing warranties are considered as assurance-type warranties under HKFRS 15, which are accounted for under HKAS 37. Retention receivables, prior to expiration of retention period, are classified as “contract assets”. The relevant amount of contract asset is reclassified to “trade receivables” when the retention period expires.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

2.16 Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in the profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under “other income” in the consolidated statements of profit or loss and other comprehensive income.

2.17 Impairment of non-financial assets (other than contract assets)

The Group’s property, plant and equipment (including right-of-use assets) are tested for impairment whenever there are indications that the asset’s carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset’s carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.18 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme.

As required by law, the Group's subsidiaries in Malaysia make contributions to the national pension schemes, the Employees Provident Fund ("EPF"). Contributions are made based on certain percentage of the employee's basic salaries.

The Group's other foreign subsidiary also make contributions in accordance with its country's statutory pension scheme.

Contributions are recognised as an expense in the profit or loss as employees rendered services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.19 Borrowing costs

Borrowing costs are expensed when incurred.

2.20 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in the other comprehensive income or directly in the equity if they relate to items that are charged or credited to the other comprehensive income or directly in the equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- income or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker (the "CODM") (being the executive directors of the Company) for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the CODM are determined by the Group's major product and service lines.

The Group has identified the following reportable segments:

- (a) Manufacturing and sale of cleanroom wall and ceiling systems products ("Cleanroom wall and ceiling systems");
- (b) Manufacturing and sale of cleanroom equipment ("Cleanroom equipment"); and
- (c) Trading of cleanroom products and provision of cleanroom preventive maintenance services ("Others").

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

2.22 Related parties

For the purposes of Historical Financial Information, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.23 Research and development activities

Costs associated with research activities are expensed in the profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Measurement of value of construction works

The management measures the value of completed construction work based on output method, which is to recognise revenue on the basis of direct measurement of the value of construction work transferred to the customer to date relative to the remaining construction works promised to be completed under the cleanroom projects. The scope of work on certain construction works may change during the construction period. Management estimates the revenue and budgeted costs at the commencement of the cleanroom projects and regularly assess the progress of construction works as well as the financial impact of scope changes, claims, disputes and liquidation damages. The management's estimate of revenue and the completion status of construction works requires significant judgement and has a significant impact on the amount and timing of revenue recognised. The construction works performed by the Group would be certified by the customers periodically according to the stage of completion of those cleanroom projects. The Group regularly reviews and revises the estimation of contract revenue prepared for each cleanroom project as the contract progresses based on the internal construction progress reports and the certification issued by the customers.

Estimation of fair value of freehold land and building

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the aggregate carrying amount of the Group's freehold land and building carried at revalued amount were RMB25,403,000, RMB26,294,000 and RMB27,233,000 and RMB24,943,000, respectively based on the valuations performed by independent qualified professional valuer. The best evidence of fair value is current prices in an active market for similar property in the same location and condition and subject to the same lease or other contracts. In the absence of such information, the valuer determines the fair values of freehold land and building with

different valuation techniques which involves significant unobservable inputs, details of which are as set out in note 14. In relying on the valuations, management has exercised its judgement and has reviewed the independent property valuations and is satisfied that the valuation methods are reflective of the current market conditions and has compared the valuations with its own assumptions.

Favourable or unfavourable changes to these assumptions used in the valuation would result in changes in the fair values of the Group's freehold land and building and corresponding adjustments to the amounts of surplus or deficits on revaluation recognised in the other comprehensive income.

Net realisable value of inventories

Net realisable value of inventories (note 15) is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period.

If the actual net realisable values of inventories are more or less than expected as a result of change in market condition, material reversal of or provision for impairment loss may result.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the carrying amount of inventories amounted to RMB12,608,000 (net of impairment provision of RMB619,000), RMB11,732,000 (net of impairment provision of RMB964,000), RMB9,621,000 (net of impairment provision of RMB1,175,000) and RMB13,813,000 (net of impairment provision of RMB1,300,000), respectively.

Estimation of ECL of financial assets and contract assets

The Group makes allowances on items subject to ECL (including trade and other receivables, contract assets and other financial assets measured at amortised costs) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period as set out in note 2.8.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the aggregate carrying amount of trade and other receivables, contract assets and other financial assets measured at amortised costs amounted to RMB100,825,000 (net of ECL allowance of RMB4,527,000), RMB127,469,000 (net of ECL allowance of RMB3,339,000), RMB144,350,000 (net of ECL allowance of RMB5,182,000) and RMB131,826,000 (net of ECL allowance of RMB3,926,000), respectively.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade and other receivables, contract assets and other financial assets measured at amortised costs and credit losses in the periods in which such estimate has been changed.

3.2 Critical accounting judgements

Income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. REVENUE AND SEGMENT INFORMATION

4.1 Revenue

The Group's principal activities are disclosed in note 1.1 to the Historical Financial Information. Revenue represents the fair value of consideration received and receivable from the sales of goods and the cleanroom projects by the Group to external customers.

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods or services over time and at a point in time were analysed as follows:

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Timing of revenue recognised over time					
– Cleanroom projects	54,534	99,245	142,736	33,483	17,360
Timing of revenue recognised at a point in time					
– Sales of goods	83,735	78,303	63,433	14,756	9,276
	<u>138,269</u>	<u>177,548</u>	<u>206,169</u>	<u>48,239</u>	<u>26,636</u>

4.2 Segment Information

Revenue and expense are allocated to the reportable segments with reference to revenue generated by those segments and the expense incurred by those segments. The measure used for reporting segment profit is gross profit. The Group's other income and expense items, such as administrative and other operating expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, depreciation and amortisation, interest income and interest expense is presented.

Information regarding the Group's reportable segments as provided to the CODM for the purpose of resources allocation and assessment of segment performance for the Track Record Period is as follows:

	Cleanroom wall and ceiling systems <i>RMB'000</i>	Cleanroom equipment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2017				
Reportable segment revenue	118,341	13,056	6,872	138,269
Reportable segment cost of sales	<u>(67,054)</u>	<u>(8,145)</u>	<u>(4,373)</u>	<u>(79,572)</u>
Reportable segment gross profit	<u>51,287</u>	<u>4,911</u>	<u>2,499</u>	<u>58,697</u>
Year ended 31 December 2018				
Reportable segment revenue	151,291	16,904	9,353	177,548
Reportable segment cost of sales	<u>(93,051)</u>	<u>(9,266)</u>	<u>(5,258)</u>	<u>(107,575)</u>
Reportable segment gross profit	<u>58,240</u>	<u>7,638</u>	<u>4,095</u>	<u>69,973</u>
Year ended 31 December 2019				
Reportable segment revenue	177,258	14,536	14,375	206,169
Reportable segment cost of sales	<u>(106,892)</u>	<u>(9,577)</u>	<u>(8,945)</u>	<u>(125,414)</u>
Reportable segment gross profit	<u>70,366</u>	<u>4,959</u>	<u>5,430</u>	<u>80,755</u>
Three months ended 31 March 2019 (unaudited)				
Reportable segment revenue	41,848	3,738	2,653	48,239
Reportable segment cost of sales	<u>(23,137)</u>	<u>(2,472)</u>	<u>(1,821)</u>	<u>(27,430)</u>
Reportable segment gross profit	<u>18,711</u>	<u>1,266</u>	<u>832</u>	<u>20,809</u>
Three months ended 31 March 2020				
Reportable segment revenue	22,952	781	2,903	26,636
Reportable segment cost of sales	<u>(12,414)</u>	<u>(689)</u>	<u>(1,952)</u>	<u>(15,055)</u>
Reportable segment gross profit	<u>10,538</u>	<u>92</u>	<u>951</u>	<u>11,581</u>

Geographical information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets.

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Revenue from external customers					
– The PRC (excluding Hong Kong)	56,101	95,980	110,947	34,337	10,412
– Malaysia	35,400	39,138	51,504	1,692	3,063
– Philippines	20,089	21,191	25,703	7,671	1,406
– Singapore	17,166	14,471	11,008	2,863	7,768
– Others	9,513	6,768	7,007	1,676	3,987
	<u>138,269</u>	<u>177,548</u>	<u>206,169</u>	<u>48,239</u>	<u>26,636</u>
	As at 31 December			As at 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Specified non-current assets					
– The PRC (excluding Hong Kong)	2,677	4,947	4,278	3,771	
– Malaysia	28,677	29,126	30,195	27,645	
– Others	132	96	83	57	
	<u>31,486</u>	<u>34,169</u>	<u>34,556</u>	<u>31,473</u>	

Information about major customers

Revenue from customers which individually contributed over 10% of the Group's revenue during the Track Record Period is as follows:

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Customer 1	30,251	63,349	41,310	17,080	4,839
Customer 2	N/A*	N/A*	34,405	N/A*	N/A*
Customer 3	N/A*	–	27,564	11,840	N/A*
Customer 4	N/A*	N/A*	N/A*	5,368	N/A*
Customer 5	–	–	–	–	6,462
Customer 6	–	–	N/A*	–	4,135
Customer 7	–	–	–	–	3,247

* The corresponding revenue did not individually contribute over 10% of the Group's revenue during the corresponding period of the Track Record Period.

Note: Except for the customer 4, which the revenue of approximately RMB1,152,000 and RMB2,248,000 are derived from cleanroom equipment and others business segment respectively, and the customer 7, which the revenue of approximately RMB1,818,000 is derived from others segment, all the remaining revenue contributed from the above customers are derived from cleanroom wall and ceiling systems business segment.

5. OTHER INCOME

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Bank interest income	320	519	811	131	48
Government grants (<i>note</i>)	559	443	596	–	38
Sundry income	464	791	512	133	215
	<u>1,343</u>	<u>1,753</u>	<u>1,919</u>	<u>264</u>	<u>301</u>

Note: Subsidies have been received from the provincial governments in the PRC for subsidizing the Group's operation. There were no unfulfilled conditions or contingencies relating to these subsidies.

6. OTHER GAINS AND (LOSSES)

	Year ended 31 December			Three months ended 31 March	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i>
Gains on disposal of property, plant and equipment, net	23	–	175	–	–
Bargain purchase (note 30)	788	–	–	–	–
Exchange (losses)/gains, net	(2,828)	110	764	(275)	522
	<u>(2,017)</u>	<u>110</u>	<u>939</u>	<u>(275)</u>	<u>522</u>

7. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i>
Interest charges on:					
– bank loan	167	153	541	126	130
– lease liabilities	113	67	143	37	20
	<u>280</u>	<u>220</u>	<u>684</u>	<u>163</u>	<u>150</u>

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Auditors' remuneration	190	759	212	64	86
Cost of inventories recognised as an expense, including	50,504	61,466	82,783	20,102	6,838
– write-down/(reversal of write-down) of inventories to net realisable value, net	74	320	187	(97)	167
Depreciation of property, plant and equipment on:					
– owned assets	992	1,072	1,010	269	270
– right-of-use assets	1,633	1,644	1,798	424	456
Credit losses/(Reversal of credit loss) of trade receivables, net	773	(1,156)	753	(21)	(613)
Credit losses of other receivables	–	11	7	–	–
Credit losses/(Reversal of credit loss) of contract assets, net	279	(81)	1,031	(81)	(515)
(Gains)/Losses on disposal of property, plant and equipment, net	(23)	19	(175)	–	–
Research and development expenses (including staff costs)	6,111	5,362	6,240	1,310	900
Short-term leases charges	120	113	142	35	39
Exchange losses/(gains), net	2,828	(110)	(764)	275	(522)

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December			Three months ended 31 March	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i>
Salaries, allowances and other benefits	19,552	20,673	24,860	4,382	4,546
Retirement scheme contributions	1,678	1,740	1,999	434	461
	<u>21,230</u>	<u>22,413</u>	<u>26,859</u>	<u>4,816</u>	<u>5,007</u>

10. INCOME TAX EXPENSE**Cayman Islands Income Tax**

Pursuant to the relevant laws and regulations of the Cayman Islands, the Company is not subject to Cayman Islands Income Tax.

Malaysian Income Tax

Malaysian Income Tax in respect of the Group's operations in Malaysia has been provided at the rate of 24% on the estimated assessable profit during the Track Record Period arising from Malaysia.

The group entities in Malaysia with paid up capital not more than RM2,500,000 can enjoy lower corporate income tax rate of 18%, 18%, 17% and 17% on the first RM500,000 chargeable income for the Track Record Period, respectively.

Philippines Income Tax

Philippines Income Tax in respect of the Group's operations in Philippines has been provided at the rate of 30% on the estimated assessable profit during the Track Record Period. Starting from the fourth taxable year after the year the business operations commenced, entities incorporated in the Philippines which are subject to the regular corporate income tax are required to pay 2% minimum corporate income tax on gross income or tax equivalent to 30% regular corporate income tax on taxable income, whichever is higher. Gross income is equivalent to revenue less direct costs. Any excess of the minimum corporate income tax over regular corporate income tax can be carried forward and credited against regular corporate income tax for three succeeding taxable years.

PRC Enterprise Income Tax (the "PRC EIT")

The PRC EIT in respect of the Group's operations in the PRC has been provided at the rate of 25% on the estimated assessable profit for the Track Record Period arising from the PRC.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries obtained the High and New Technology Enterprises qualification. Accordingly, they entitled to a preferential income tax rate of 15% on its estimated assessable profit during the Track Record Period.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC in January 2019, one of the Group's PRC subsidiaries entitled to a tax preferential income tax rate of 10% on its estimated assessable profit during the year ended 31 December 2019 and the three months ended 31 March 2020.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, one of the Group's PRC subsidiaries engaging in research and development activities is entitled to claim 175% for the Track Record Period of its research and development expenses so incurred as tax deductible expenses when determining its assessable profit for the Track Record Period ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's PRC subsidiary in ascertaining its assessable profit for the Track Record Period.

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Current tax					
The PRC EIT					
– Current year/period	2,167	3,335	2,290	1,435	22
Malaysian Income Tax					
– Current year/period	2,958	4,124	5,495	538	1,539
– Under/(Over)-provision in respect of prior years	344	(95)	(233)	–	15
Philippines Income Tax					
– Current year/period	18	488	364	–	–
– Under-provision in respect of prior years	32	–	–	–	–
	<u>5,519</u>	<u>7,852</u>	<u>7,916</u>	<u>1,973</u>	<u>1,576</u>
Deferred tax					
– Current year/period (note 24)	554	586	(938)	396	(55)
– Over-provision in respect of prior years (note 24)	(19)	–	(68)	–	–
– Effect on changes in tax rate (note 24)	–	–	9	9	–
	<u>535</u>	<u>586</u>	<u>(997)</u>	<u>405</u>	<u>(55)</u>
Income tax expense	<u>6,054</u>	<u>8,438</u>	<u>6,919</u>	<u>2,378</u>	<u>1,521</u>

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Profit before income tax	28,080	40,708	32,848	13,076	4,324
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	6,055	8,118	5,943	2,060	870
Tax effects on:					
– non-taxable income	(137)	(45)	(84)	(5)	–
– non-deductible expenses	532	1,098	2,054	415	667
– utilisation of tax losses/deductible temporary differences previously not recognised	(65)	(35)	–	46	70
– Super Deduction of research and development expenses	(688)	(603)	(702)	(147)	(101)
– change in tax rate of deferred tax recognised	–	–	9	9	–
– under/(over)-provision in respect of prior years	357	(95)	(301)	–	15
	6,054	8,438	6,919	2,378	1,521

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

11.1 Directors' emoluments

	Fees RMB'000	Salaries, allowances and benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2017					
<i>Executive directors</i>					
Ng Yew Sum	–	758	1,170	187	2,115
Law Eng Hock	–	497	575	5	1,077
Lim Kai Seng	–	351	494	101	946
Chin Sze Kee	–	416	110	58	584
Yap Chui Fan	–	406	458	83	947
	–	2,428	2,807	434	5,669
Year ended 31 December 2018					
<i>Executive directors</i>					
Ng Yew Sum	–	848	628	121	1,597
Law Eng Hock	–	571	650	5	1,226
Lim Kai Seng	–	395	328	87	810
Chin Sze Kee	–	454	328	85	867
Yap Chui Fan	–	451	464	62	977
	–	2,719	2,398	360	5,477
Year ended 31 December 2019					
<i>Executive directors</i>					
Ng Yew Sum	–	928	1,300	236	2,464
Law Eng Hock	–	613	950	5	1,568
Lim Kai Seng	–	436	667	165	1,268
Chin Sze Kee	–	501	268	87	856
Yap Chui Fan	–	497	800	122	1,419
	–	2,975	3,985	615	7,575

	Fees RMB'000	Salaries, allowances and benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Three months ended					
31 March 2019 (unaudited)					
<i>Executive directors</i>					
Ng Yew Sum	–	230	–	21	251
Law Eng Hock	–	145	–	1	146
Lim Kai Seng	–	109	–	13	122
Chin Sze Kee	–	124	–	14	138
Yap Chui Fan	–	123	–	12	135
	–	731	–	61	792
Three months ended					
31 March 2020					
<i>Executive directors</i>					
Ng Yew Sum	–	233	–	22	255
Law Eng Hock	–	153	–	1	154
Lim Kai Seng	–	111	–	13	124
Chin Sze Kee	–	126	–	14	140
Yap Chui Fan	–	125	–	12	137
	–	748	–	62	810

All the executive directors were appointed as the directors of the Company on 11 June 2019. Francis Chia Mong Tet was appointed as a director of the Company on 11 June 2019 and resigned on 16 August 2019 and he has not received any director's emoluments during the Track Record Period. The independent non-executive directors, Ng Seng Leong, Wu Chun Sing and Martin Giles Manen will be appointed as the directors of the Company upon listing. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any directors' emoluments in the capacity of independent non-executive directors.

The above emoluments represent the emoluments received from the Group by the directors of the Company in their capacity as employees or directors of the Company's subsidiaries during the Track Record Period. The discretionary bonuses are based on the individual performance as recognition of and reward for the contributions from the directors during the Track Record Period.

11.2 Five highest paid individuals

The five highest paid individuals of the Group during the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020 include 4, 5, 5, 5 and 5 directors whose emoluments are disclosed in note 11.1. Details of the emoluments in respect of the remaining 1, Nil, Nil, Nil and Nil highest paid individuals are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Salaries, allowances and benefits	280	–	–	–	–
Discretionary bonuses	411	–	–	–	–
Retirement scheme contributions	–	–	–	–	–
	<u>691</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The above individuals' emoluments are within the following bands:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019 (unaudited)	2020
Number of individuals					
HK\$Nil to HK\$1,000,000	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

During the Track Record Period, no emoluments were paid by the Group to the director of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Company or five highest paid individuals have waived or agreed to waive any emoluments during the Track Record Period.

12. DIVIDENDS

No dividend has been declared or paid by the Company for the years ended 31 December 2017 and 2018 and the three months ended 31 March 2020. Pursuant to a written resolution passed by the directors of the Company on 9 July 2020, a final dividend of RMB1.5 per share in respect of the year ended 31 December 2019 amounting to RMB15,000,000 has been proposed.

During the Track Record Period, dividends declared and paid by the subsidiaries now comprising the Group prior to the Reorganisation, are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i>
Dividends to the equity holders	–	4,607	17,678	15,217	–
Dividends to the non-controlling interests	–	3,533	7,706	5,919	–
	–	8,140	25,384	21,136	–

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not considered meaningful having regard to the purpose of this Historical Financial Information.

13. EARNINGS PER SHARE

	Year ended 31 December			Three months ended 31 March	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i>
Earnings					
Profit for the year/period attributable to equity holders of the Company for the purposes of basic earnings per share	<u>13,899</u>	<u>20,696</u>	<u>18,184</u>	<u>6,406</u>	<u>2,776</u>
Number of shares					
Weighted average number of ordinary shares for the purposes of basic earnings per share (<i>in thousands</i>)	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period has been adjusted retrospectively for the effect of the proposed capitalisation issue subsequent to the end of the reporting period as set out in part III as if the capitalisation issue had been effective on 1 January 2017.

Diluted earnings per share for the Track Record Period are the same as basic earnings per share as there were no potential ordinary shares in issue during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets RMB'000	Freehold land RMB'000	Building RMB'000	Furniture, fittings and equipment RMB'000	Leasehold Improvement RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2017									
Cost	4,978	-	-	3,057	1,311	1,330	5,172	723	16,571
Valuation	-	13,932	9,134	-	-	-	-	-	23,066
Accumulated depreciation	(2,024)	-	-	(2,452)	(1,092)	(879)	(4,122)	-	(10,569)
Net carrying amount	2,954	13,932	9,134	605	219	451	1,050	723	29,068
Year ended 31 December 2017									
Opening net carrying amount	2,954	13,932	9,134	605	219	451	1,050	723	29,068
Additions	992	-	-	120	72	369	869	-	2,422
Transfer	-	-	-	-	-	-	751	(751)	-
Revaluation surplus	-	1,571	49	-	-	-	-	-	1,620
Disposals	-	-	-	(11)	-	(21)	-	-	(32)
Depreciation	(1,633)	-	(206)	(196)	(107)	(158)	(325)	-	(2,625)
Exchange realignment	38	574	349	11	7	(4)	30	28	1,033
Closing net carrying amount	2,351	16,077	9,326	529	191	637	2,375	-	31,486
As at 31 December 2017 and 1 January 2018									
Cost	5,827	-	-	3,220	1,432	1,474	6,924	-	18,877
Valuation	-	16,077	9,326	-	-	-	-	-	25,403
Accumulated depreciation	(3,476)	-	-	(2,691)	(1,241)	(837)	(4,549)	-	(12,794)
Net carrying amount	2,351	16,077	9,326	529	191	637	2,375	-	31,486

	Right-of-use assets RMB'000	Freehold land RMB'000	Building RMB'000	Furniture, fittings and equipment RMB'000	Leasehold Improvement RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018									
Opening net carrying amount	2,351	16,077	9,326	529	191	637	2,375	-	31,486
Additions	3,711	-	-	266	86	-	136	-	4,199
Revaluation surplus	-	-	216	-	-	-	-	-	216
Disposals	-	-	-	(12)	-	(6)	(1)	-	(19)
Depreciation	(1,644)	-	(216)	(227)	(59)	(264)	(306)	-	(2,716)
Exchange realignment	20	564	327	11	7	10	64	-	1,003
Closing net carrying amount	4,438	16,641	9,653	567	225	377	2,268	-	34,169
As at 31 December 2018 and 1 January 2019									
Cost	7,013	-	-	3,499	1,569	1,432	7,218	-	20,731
Valuation	-	16,641	9,653	-	-	-	-	-	26,294
Accumulated depreciation	(2,575)	-	-	(2,932)	(1,344)	(1,055)	(4,950)	-	(12,856)
Net carrying amount	4,438	16,641	9,653	567	225	377	2,268	-	34,169
Year ended 31 December 2019									
Opening net carrying amount	4,438	16,641	9,653	567	225	377	2,268	-	34,169
Additions	823	-	-	128	3	816	337	-	2,107
Revaluation surplus	-	499	44	-	-	-	-	-	543
Disposals	(104)	-	-	(3)	-	(12)	(4)	-	(123)
Depreciation	(1,798)	-	(209)	(165)	(52)	(325)	(259)	-	(2,808)
Exchange realignment	10	390	215	9	4	(5)	45	-	668
Closing net carrying amount	3,369	17,530	9,703	536	180	851	2,387	-	34,556

	Right-of-use assets RMB'000	Freehold land RMB'000	Building RMB'000	Furniture, fittings and equipment RMB'000	Leasehold Improvement RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2019 and 1 January 2020									
Cost	7,383	-	-	3,675	1,608	2,142	7,483	-	22,291
Valuation	-	17,530	9,703	-	-	-	-	-	27,233
Accumulated depreciation	(4,014)	-	-	(3,139)	(1,428)	(1,291)	(5,096)	-	(14,968)
Net carrying amount	3,369	17,530	9,703	536	180	851	2,387	-	34,556
Three months ended 31 March 2020									
Opening net carrying amount	3,369	17,530	9,703	536	180	851	2,387	-	34,556
Additions	-	-	-	19	-	-	-	-	19
Revaluation (deficit)/surplus	-	(1,338)	57	-	-	-	-	-	(1,281)
Depreciation	(456)	-	(57)	(39)	(13)	(94)	(67)	-	(726)
Exchange realignment	(15)	(604)	(348)	(9)	(8)	(39)	(72)	-	(1,095)
Closing net carrying amount	2,898	15,588	9,355	507	159	718	2,248	-	31,473
As at 31 March 2020									
Cost	7,343	-	-	3,593	1,550	2,088	7,297	-	21,871
Valuation	-	15,588	9,355	-	-	-	-	-	24,943
Accumulated depreciation	(4,445)	-	-	(3,086)	(1,391)	(1,370)	(5,049)	-	(15,341)
Net carrying amount	2,898	15,588	9,355	507	159	718	2,248	-	31,473

Additional information on the right-of-use assets by class of assets is as follow:

	Plant <i>RMB'000</i>	Office premises and staff quarters <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Net carrying amount as at 1 January 2017	1,622	124	1,208	2,954
Additions for the year	–	992	–	992
Depreciation for the year	(847)	(365)	(421)	(1,633)
Exchange realignment	–	1	37	38
Net carrying amount as at 31 December 2017 and 1 January 2018	775	752	824	2,351
Additions for the year	3,662	49	–	3,711
Depreciation for the year	(878)	(411)	(355)	(1,644)
Exchange realignment	–	–	20	20
Net carrying amount as at 31 December 2018 and 1 January 2019	3,559	390	489	4,438
Additions for the year	–	346	477	823
Disposal for the year	–	–	(104)	(104)
Depreciation for the year	(1,221)	(385)	(192)	(1,798)
Exchange realignment	–	–	10	10
Net carrying amount as at 31 December 2019 and 1 January 2020	2,338	351	680	3,369
Depreciation for the period	(305)	(127)	(24)	(456)
Exchange realignment	–	–	(15)	(15)
Net carrying amount as at 31 March 2020	<u>2,033</u>	<u>224</u>	<u>641</u>	<u>2,898</u>

The table below describes the nature of the Group's leasing activities by type of right-of-use assets recognised under property, plant and equipment:

	Number of right-of-use assets leased	Range of remaining term	Number of leases with extension options	Number of leases with options to purchase	Number of leases with termination options
Plant	2	1 to 3 years	2	–	2
Office premises and staff quarters	16	0 to 3 years	3	–	12
Motor vehicles	5	1 to 5 years	–	4	4

Had the freehold land and building been carried at cost less accumulated depreciation, the carrying amounts would be as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	9,577	9,913	10,139	9,775
Accumulated depreciation	<u>(2,199)</u>	<u>(2,385)</u>	<u>(2,550)</u>	<u>(2,485)</u>
Net book amount	<u>7,378</u>	<u>7,528</u>	<u>7,589</u>	<u>7,290</u>

Bank loan is secured by the legal charges over the freehold land and building with the aggregate carrying amount of RMB25,403,000, RMB26,294,000, RMB27,233,000 and RMB24,943,000 as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively (*note 23*).

Fair value measurement of properties

The following table shows the Group's freehold land and building measured at fair value at the end of each Track Record Period on a recurring basis, categorised into three levels fair value hierarchy. The levels are based on the observability and significance of inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.
- Level 3: significant unobservable inputs for the asset or liability.

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2017				
Recurring fair value measurement				
Freehold land outside Hong Kong	–	16,077	–	16,077
Building outside Hong Kong	–	–	9,326	9,326
	<u>–</u>	<u>16,077</u>	<u>9,326</u>	<u>25,403</u>
As at 31 December 2018				
Recurring fair value measurement				
Freehold land outside Hong Kong	–	16,641	–	16,641
Building outside Hong Kong	–	–	9,653	9,653
	<u>–</u>	<u>16,641</u>	<u>9,653</u>	<u>26,294</u>
As at 31 December 2019				
Recurring fair value measurement				
Freehold land outside Hong Kong	–	17,530	–	17,530
Building outside Hong Kong	–	–	9,703	9,703
	<u>–</u>	<u>17,530</u>	<u>9,703</u>	<u>27,233</u>
As at 31 March 2020				
Recurring fair value measurement				
Freehold land outside Hong Kong	–	15,588	–	15,588
Building outside Hong Kong	–	–	9,355	9,355
	<u>–</u>	<u>15,588</u>	<u>9,355</u>	<u>24,943</u>

There were no transfers between Level 1, 2 and 3 during the Track Record Period.

The Group's freehold land and building were revalued as at 31 December 2017, 2018 and 2019 and 31 March 2020 by independent professional qualified valuer, Rahim & Co International Sdn. Bhd. The Group's finance department reviews the valuations performed by the independent professional qualified valuer for the financial reporting purposes.

Set out below are information about the fair values of freehold land and building categorised under Level 2 and Level 3 fair value hierarchy:

	Valuation technique	Unobservable Input	Range			As at
			As at 31 December		2019	31 March 2020
			2017	2018	2019	2020
Level 2						
Freehold land outside Hong Kong (<i>note a</i>)	Market comparison approach	Price per square feet	RM188 to RM209 per square feet	RM182 to RM209 per square feet	RM182 to RM229 per square feet	RM164 to RM214 per square feet
Level 3						
Building outside Hong Kong (<i>note b</i>)	Cost approach	Replacement costs per square feet	RM90 to RM180 per square feet	RM90 to RM185 per square feet	RM90 to RM185 per square feet	RM90 to RM185 per square feet
		Depreciation rates	14% to 25%	16% to 26%	18% to 28%	19% to 28%

Note:

- (a) The fair values of the freehold land outside Hong Kong were carried out using a market comparison approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the properties, including plot size, location, encumbrances and current use.

The unobservable input is the price per square feet of the freehold land. The extent and direction of the price per square feet depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions. Generally, an increase in price per square feet of the freehold land would result in a higher fair value measurement.

- (b) The fair values of the building outside Hong Kong were estimated using a cost approach which considers the cost to reproduce or replace the property appraised in new condition in accordance with current construction costs for similar properties in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence percent, whether arising from physical, functional or economic causes.

The significant unobservable inputs are the replacement costs per square feet and the depreciation rates. The extent and direction of the replacement costs per square feet and the depreciation rates depends on the market researches and physical condition of the building. Although these inputs are subjective judgements, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions. The estimated fair value increases if the estimated replacement costs per square feet increases, or if depreciation rates declines.

The reconciliation of the carrying amounts of the Group's freehold land and building classified within Level 2 and Level 3 of the fair value hierarchy is as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Level 2				
Freehold land outside Hong Kong				
Fair value at the beginning of the year/period	13,932	16,077	16,641	17,530
Surplus/(Deficit) on revaluation recognised in the other comprehensive income	1,571	–	499	(1,338)
Exchange realignment	574	564	390	(604)
Net carrying amount	<u>16,077</u>	<u>16,641</u>	<u>17,530</u>	<u>15,588</u>
Level 3				
Building outside Hong Kong				
Fair value at the beginning of the year/period	9,134	9,326	9,653	9,703
Depreciation for the year/period	(206)	(216)	(209)	(57)
Surplus on revaluation recognised in the other comprehensive income	49	216	44	57
Exchange realignment	349	327	215	(348)
Net carrying amount	<u>9,326</u>	<u>9,653</u>	<u>9,703</u>	<u>9,355</u>

Surplus/(Deficit) on revaluation on freehold land and building is recognised in the other comprehensive income and included under "revaluation reserve" in equity.

15. INVENTORIES

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Raw materials	7,955	7,439	7,723	8,953
Finished goods	4,653	4,293	1,898	4,860
	<u>12,608</u>	<u>11,732</u>	<u>9,621</u>	<u>13,813</u>

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the inventories with carrying amount of RMB2,225,000, RMB1,925,000, RMB1,670,000 and RMB1,300,000 were carried at net realisable value, respectively.

16. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 31 March
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Trade receivables				
– from related companies controlled by the Controlling Shareholders	–	1,722	–	–
– from third parties	45,962	32,620	56,943	32,669
Less: ECL allowance	(3,564)	(2,480)	(3,281)	(2,600)
	<u>42,398</u>	<u>31,862</u>	<u>53,662</u>	<u>30,069</u>
Bill receivables	<u>–</u>	<u>204</u>	<u>1,856</u>	<u>9,482</u>
	<u>42,398</u>	<u>32,066</u>	<u>55,518</u>	<u>39,551</u>
Other receivables				
Prepayments	1,132	837	1,608	3,862
Prepaid listing expenses	–	496	4,030	4,526
Other tax receivables	4,070	1,429	4,358	4,830
Other receivables	1,826	196	4,406	215
Rental and other deposits	597	380	354	617
	<u>7,625</u>	<u>3,338</u>	<u>14,756</u>	<u>14,050</u>
Less: ECL allowance	<u>(50)</u>	<u>(25)</u>	<u>(32)</u>	<u>(32)</u>
	<u>7,575</u>	<u>3,313</u>	<u>14,724</u>	<u>14,018</u>
	<u><u>49,973</u></u>	<u><u>35,379</u></u>	<u><u>70,242</u></u>	<u><u>53,569</u></u>

All the bill receivables are due within one year.

The credit period is generally for a period of 0 to 90 days. Based on the invoice dates, the ageing analysis of trade receivables, net of ECL allowance, was as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
0-90 days	35,835	28,896	46,098	18,513
91-180 days	1,614	1,192	4,519	7,242
181-365 days	3,833	854	2,328	2,330
Over 365 days	1,116	920	717	1,984
	<u>42,398</u>	<u>31,862</u>	<u>53,662</u>	<u>30,069</u>

The movement in the ECL allowance of trade receivables is as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
At the beginning of the year/period	(2,715)	(3,564)	(2,480)	(3,281)
Amount written-off during the year/period	8	—	—	—
Net ECL allowance (recognised)/reversed during the year/period	(773)	1,156	(753)	613
Exchange differences	(84)	(72)	(48)	68
At the end of the year/period	<u>(3,564)</u>	<u>(2,480)</u>	<u>(3,281)</u>	<u>(2,600)</u>

The movement in the ECL allowance of other receivables is as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
At the beginning of the year/period	(50)	(50)	(25)	(32)
Amount written-off during the year/period	—	36	—	—
ECL allowance recognised during the year/period	—	(11)	(7)	—
At the end of the year/period	<u>(50)</u>	<u>(25)</u>	<u>(32)</u>	<u>(32)</u>

17. CONTRACT ASSETS AND CONTRACT LIABILITIES

17.1 Contract assets

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Contract assets arising from cleanroom projects (notes a, c)	21,746	21,660	50,427	34,701
Contract assets arising from sales of goods (notes b, c)	2,384	974	291	422
Less: ECL allowance	(913)	(834)	(1,869)	(1,294)
	<u>23,217</u>	<u>21,800</u>	<u>48,849</u>	<u>33,829</u>

Note:

- (a) The Group's cleanroom projects include payment schedules which require progress payments over the construction period once certain specified milestones are reached. The Group requires certain customers to pay deposits, equivalent to 30% of total contract sum, as part of its credit risk management policies. The Group also normally agrees to a one to two years retention period for 3% to 10% of the contract value. This amount is included in "contract assets" as the Group's entitlement to this final payment is conditional on the Group's satisfactory work until the end of retention period.
- (b) The Group provides with certain of its trading customers a one-year retention period for 5% of the contract value. This amount is included in "contract assets" as the Group's entitlement to this final payment is conditional on the Group's satisfactory work until the end of retention period.
- (c) The Group's contract assets represent the right to the consideration for the completion of construction works or upon delivery of sales of goods but are not yet billed to customers.
- (d) As at 31 December 2017, 2018 and 2019 and 31 March 2020, the carrying amount of contract assets that is expected to be recovered after more than one year is RMB3,040,000, RMB17,905,000, RMB11,808,000 and RMB10,896,000, respectively, substantial of which relates to the conditional receivables from customers.
- (e) The contract assets are transferred to receivables when the rights become unconditional. As at 31 December 2017, 2018 and 2019 and 31 March 2020, RMB13,745,000, RMB21,155,000, RMB19,983,000 and RMB12,873,000 of the contract assets at the beginning of the year were transferred to trade receivables, respectively.

The movement in the ECL allowance of contract assets is as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
At the beginning of the year/period	(630)	(913)	(834)	(1,869)
Net ECL allowance (recognised)/reversed during the year/period	(279)	81	(1,031)	515
Exchange differences	(4)	(2)	(4)	60
At the end of the year/period	<u>(913)</u>	<u>(834)</u>	<u>(1,869)</u>	<u>(1,294)</u>

17.2 Contract liabilities

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
Contract liabilities arising from cleanroom projects from billings in advance of performance	90	–	4,297	4,142
Contract liabilities arising from receiving deposits of manufacturing orders	<u>2,432</u>	<u>2,141</u>	<u>144</u>	<u>200</u>
	<u>2,522</u>	<u>2,141</u>	<u>4,441</u>	<u>4,342</u>

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the inception of a contract until the revenue recognised on the project exceeds the amount of the deposit. The Group typically receives a 10% to 35% deposit on acceptance of manufacturing orders during the Track Record Period.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, none of the contract liabilities that is expected to be settled after more than one year.

Contract liabilities outstanding at the beginning of the year/period amounting to RMB6,085,000, RMB2,568,000, RMB2,145,000 and RMB144,000 have been recognised as revenue during the Track Record Period respectively.

Unsatisfied performance obligations

The transaction price of cleanroom projects allocated to the remaining unsatisfied or partially satisfied performance obligations at the reporting period are as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	48,917	46,845	72,822	69,209
More than one year	—	—	8,521	3,443
	<u>48,917</u>	<u>46,845</u>	<u>81,343</u>	<u>72,652</u>

These amounts disclosed above do not include transaction price allocated to performance obligations which have been satisfied but not yet recognised due to variable consideration constraint.

Sales of goods are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

18. AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due are non-trade in nature, unsecured, interest-free and repayable on demand. All the amounts due from/to related parties will be settled prior to the listing.

(a) Amounts due from related parties

	As at 31 December			As at
	2017 RMB'000	2018 RMB'000	2019 RMB'000	31 March 2020 RMB'000
Amounts due from the Controlling Shareholders				
– Ng Yew Sum	876	862	–	2
– Francis Chia Mong Tet	356	352	–	–
– Chang Chin Sia	114	113	–	–
– Ng Boon Hock	114	113	–	–
– Chin Sze Kee	12	5	–	–
– Law Eng Hock	198	116	–	–
– Yap Chui Fan	81	80	–	–
– Lim Kai Seng	90	102	–	–
– Loh Wei Loon	–	12	–	–
– Phang Chee Kin	11	13	–	–
	<u>1,852</u>	<u>1,768</u>	<u>–</u>	<u>2</u>
Amounts due from the then shareholders/a shareholder				
– Channel Systems Inc.	696	689	–	–
– Pacific Panels Inc.	696	689	–	–
– Luah Kok Lam	51	94	12	–
– Tee Chin Alk	–	44	–	–
– Lim Huey Wen	7	7	–	–
	<u>1,450</u>	<u>1,523</u>	<u>12</u>	<u>–</u>
Amounts due from related companies				
– Sumsys Solution Phils., Inc. (note a)	7	150	–	–
– Sum System Solution Sdn. Bhd. (note b)	–	12	–	1
	<u>7</u>	<u>162</u>	<u>–</u>	<u>1</u>
	<u>3,309</u>	<u>3,453</u>	<u>12</u>	<u>3</u>

Note:

- (a) Sumsys Solution Phils., Inc. is a related company significantly influenced by Ng Yew Sum, Francis Chia Mong Tet and Chin Sze Kee, the Controlling Shareholders of the Company.
- (b) Sum System Solution Sdn. Bhd. (“Sum System”) is a related company controlled by Ng Yew Sum, Francis Chia Mong Tet, Chin Sze Kee, Law Eng Hock, Yap Chui Fan and Lim Kai Seng, the Controlling Shareholders of the Company.

(b) Amounts due to related parties

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Amounts due to the Controlling Shareholders				
– Loh Wei Loon	10	–	–	2
– Lim Kai Seng	–	–	–	32
	<u>10</u>	<u>–</u>	<u>–</u>	<u>34</u>
Amounts due to the then shareholders				
– Tee Chin Alk	44	–	–	–
– Luah Kok Lam	–	–	–	4
	<u>44</u>	<u>–</u>	<u>–</u>	<u>4</u>
Amount due to a related company				
– Sum Technic Sdn. Bdn. (note)	–	3	26	97
	<u>54</u>	<u>3</u>	<u>26</u>	<u>135</u>

Note: Sum Technic Sdn. Bdn. (“Sum Technic”) is a related company controlled by Ng Yew Sum, Chin Sze Kee, Law Eng Hock and Yap Chui Fan, the Controlling Shareholders of the Company.

19. FINANCIAL ASSETS AT FVTPL

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Bank wealth management products	–	4,000	9,000	–
	<u>–</u>	<u>4,000</u>	<u>9,000</u>	<u>–</u>

The financial assets at FVTPL represent investments in bank wealth management products issued by a bank in the PRC with the expected return not higher than 4.2% per annum. The returns on the bank wealth management products are not guaranteed, and therefore the Group designated them as financial assets at FVTPL. The bank wealth management products are redeemable at the discretion of the Group from time to time and the intention of holding them is for short term investment.

As at 31 December 2018 and 2019, the carrying amount of the bank wealth management products approximates to its fair value. The fair value estimated is based on cash flow discounted using the expected return based on management judgement and estimates and are within level 3 of the fair value hierarchy.

20. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Pledged bank deposits (note a)	3,250	1,188	622	622
Cash and bank balances (note b)	15,823	68,411	32,621	57,021
Short-term bank deposits (note c)	10,455	–	2,000	–
Cash and cash equivalents	26,278	68,411	34,621	57,021

Note:

- (a) The pledged bank deposits earn interest at floating rates based on daily bank deposit rates and have a maturity of 6 months to 13 months. They are for the purpose of the performance, retention monies and advance payment guarantee in respect of the cleanroom projects.
- (b) Cash at banks earns interest at floating rates based on daily bank deposit rates.
- (c) As at 31 December 2017, 2018 and 2019 and 31 March 2020, the short-term bank deposits earn 1.2%, Nil%, 3.1% and Nil% interest per annum respectively.

21. TRADE AND OTHER PAYABLES

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade payables	25,189	16,013	35,718	21,004
Other payables				
– Accrued expenses	6,323	5,196	7,342	2,794
– Other tax payables	197	797	641	87
– Other payables	1,060	2,162	2,514	1,541
	7,580	8,155	10,497	4,422
	32,769	24,168	46,215	25,426

The Group was granted by its supplier credit periods ranging from 30 to 90 days. Based on the invoice dates, the ageing analysis of trade payables were as follows:

	As at 31 December			As at 31 March
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
0-90 days	23,787	12,445	31,571	15,105
91-180 days	246	426	1,756	4,653
181-365 days	246	2,522	715	431
Over 365 days	910	620	1,676	815
	<u>25,189</u>	<u>16,013</u>	<u>35,718</u>	<u>21,004</u>

22. LEASE LIABILITIES

	As at 31 December			As at 31 March
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Total minimum lease payments:				
– Due within one year	1,612	1,729	1,735	1,629
– Due after one year but within five years	929	2,820	1,520	1,112
	<u>2,541</u>	<u>4,549</u>	<u>3,255</u>	<u>2,741</u>
Future finance charges on lease liabilities	(112)	(277)	(153)	(117)
Present value of lease liabilities	<u>2,429</u>	<u>4,272</u>	<u>3,102</u>	<u>2,624</u>
Present value of minimum lease payments:				
– Due within one year	1,539	1,567	1,629	1,543
– Due after one year but within five years	890	2,705	1,473	1,081
	<u>2,429</u>	<u>4,272</u>	<u>3,102</u>	<u>2,624</u>
Less: portion due within one year included under current liabilities	(1,539)	(1,567)	(1,629)	(1,543)
Portion due after one year included under non-current liabilities	<u>890</u>	<u>2,705</u>	<u>1,473</u>	<u>1,081</u>

The Group leases a number of plant, office premises, staff quarters and motor vehicles to operate its Listing Business. These lease liabilities are measured at present value of the lease payments that are not yet paid. As at 31 December 2017, 2018 and 2019 and 31 March 2020, the weighted average incremental borrowing rates applied to lease liabilities recognised were 4.4% to 4.8%, 4.4% to 4.8%, 4.0% to 4.8% and 4.4% to 4.8%, respectively.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, certain lease liabilities in relation to motor vehicles with outstanding balance of RMB729,000, RMB364,000, RMB111,000 and RMB89,000, respectively were guaranteed by a personal guarantee given by Ng Yew Sum, a Controlling Shareholder of the Company.

In addition, a lease liability in relation to a motor vehicle with outstanding balance of RMB398,000 and RMB364,000 as at 31 December 2019 and 31 March 2020 respectively was guaranteed by a personal guarantee given by Lim Kai Seng, a Controlling Shareholder of the Company.

During the Track Record Period, the total cash outflows for the leases are RMB1,801,000, RMB2,104,000, RMB2,352,000 and RMB520,000, respectively.

23. BORROWINGS

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Bank loans, wholly repayable within one year or on demand				
Secured	3,295	14,930	14,675	13,992
Unsecured	—	—	—	4,000
	<u>3,295</u>	<u>14,930</u>	<u>14,675</u>	<u>17,992</u>

Note:

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the bank loan bears effective interest rates of 4.9%, 4.7%, 4.7% and range from 3.8% to 4.8% per annum, respectively.

As at 31 December 2017, the Group's bank loan was guaranteed by the personal guarantees given by Ng Yew Sum and Francis Chia Mong Tet, the Controlling Shareholders of the Company; and secured by the legal charges over the Group's freehold land and building (*note 14*). The bank loan was fully repaid during the year ended 31 December 2018.

As at 31 December 2018, 2019 and 31 March 2020, the Group's bank loan of RMB14,930,000, RMB14,675,000 and RMB13,992,000 was guaranteed by the personal guarantees given by Ng Yew Sum, Chin Sze Kee and Law Eng Hock, the Controlling Shareholders of the Company and secured by the legal charges over the Group's freehold land and building (*note 14*).

24. DEFERRED TAX

The movement in deferred tax assets/(liabilities) during the Track Record Period is as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
At the beginning of the year/period	722	109	(533)	(201)
(Recognised)/Reversed in the profit or loss (<i>note 10</i>)	(554)	(586)	938	55
(Recognised)/Reversed in the other comprehensive income	(61)	(21)	(33)	130
Over-provision in respect of prior years (<i>note 10</i>)	19	–	68	–
Effect on changes in tax rate in the profit or loss (<i>note 10</i>)	–	–	(9)	–
Effect on changes in tax rate in the other comprehensive income	–	–	(609)	–
Exchange realignment	(17)	(35)	(23)	24
At the end of the year/period	<u>109</u>	<u>(533)</u>	<u>(201)</u>	<u>8</u>

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movement during the Track Record Period is as follows:

	Accelerated tax depreciation RMB'000	Revaluation of property held for own use RMB'000	Billings in advance from customer RMB'000	Accrued expenses RMB'000	Provisions RMB'000	Tax losses RMB'000	Total RMB'000
As at 1 January 2017	(141)	(2,179)	1,300	893	849	-	722
(Recognised)/Reversed in the profit or loss (note 10)	(60)	-	(750)	(11)	267	-	(554)
Recognised in the other comprehensive income	-	(61)	-	-	-	-	(61)
Over-provision in respect of prior years (note 10)	19	-	-	-	-	-	19
Exchange realignment	(6)	(86)	33	31	11	-	(17)
As at 31 December 2017 and 1 January 2018	(188)	(2,326)	583	913	1,127	-	109
Reversed/(Recognised) in the profit or loss (note 10)	64	-	(97)	(333)	(220)	-	(586)
Recognised in the other comprehensive income	-	(21)	-	-	-	-	(21)
Exchange realignment	(6)	(82)	19	25	9	-	(35)
As at 31 December 2018 and 1 January 2019	(130)	(2,429)	505	605	916	-	(533)
Reversed in the profit or loss (note 10)	9	-	507	49	373	-	938
Recognised in the other comprehensive income	-	(33)	-	-	-	-	(33)
Effect on changes in tax rate in the profit or loss (note 10)	-	-	-	-	(9)	-	(9)
Effect on changes in tax rate in the other comprehensive income	-	(609)	-	-	-	-	(609)
(Under)/Over-provision in respect of prior years (note 10)	(10)	-	-	78	-	-	68
Exchange realignment	(3)	(67)	23	15	9	-	(23)
As at 31 December 2019 and 1 January 2020	(134)	(3,138)	1,035	747	1,289	-	(201)
(Recognised)/Reversed in the profit or loss (note 10)	(150)	-	(3)	(179)	(178)	565	55
Reversed in the other comprehensive income	-	130	-	-	-	-	130
Exchange realignment	7	111	(38)	(24)	(24)	(8)	24
As at 31 March 2020	(277)	(2,897)	994	544	1,087	557	8

The amounts recognised in the consolidated statements of financial position are as follows:

	As at 31 December			As at
	2017	2018	2019	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	2,623	2,026	3,071	3,182
Deferred tax liabilities	(2,514)	(2,559)	(3,272)	(3,174)
	<u>109</u>	<u>(533)</u>	<u>(201)</u>	<u>8</u>

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the Group has unrecognised tax losses of RMB383,000, RMB Nil, RMB Nil and RMB237,000, respectively to carry forward against future taxable income. These unrecognised tax losses can be carried forward for three years from the year/period of incurring the loss under the current tax legislation. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the aggregate amount of temporary differences associated with the undistributed profits of the Company's PRC subsidiaries amounted to RMB24,247,000, RMB30,474,000, RMB32,776,000 and RMB32,250,000, respectively. Deferred tax liabilities have not been recognised amounting to RMB2,425,000, RMB3,047,000, RMB3,278,000 and RMB3,225,000, respectively in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries.

25. SHARE CAPITAL

	The Company			
	Number of shares			
	<i>HK\$0.1 per share</i>	<i>HK\$0.01 per share</i>	<i>Total</i>	<i>RMB'000</i>
Authorised: Ordinary shares				
Upon incorporation (<i>note a</i>)	3,800,000	–	3,800,000	335
Share subdivision (<i>note c</i>)	<u>(3,800,000)</u>	<u>38,000,000</u>	<u>34,200,000</u>	<u>–</u>
As at 31 December 2019 and 31 March 2020	<u>–</u>	<u>38,000,000</u>	<u>38,000,000</u>	<u>335</u>
Issued and fully paid:				
Ordinary shares				
Upon incorporation (<i>note a</i>)	10	–	10	–*
Issuance of share capital (<i>note b</i>)	999,990	–	999,990	89
Share subdivision (<i>note c</i>)	<u>(1,000,000)</u>	<u>10,000,000</u>	<u>9,000,000</u>	<u>–</u>
As at 31 December 2019 and 31 March 2020	<u>–</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>89</u>

* The balance represented an amount less than RMB1,000.

Note:

- (a) The Company was incorporated on 11 June 2019 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each and has not carried on any business since the date of incorporation except for the Reorganisation. On the date of incorporation, 10 paid shares were allotted and issued at par.
- (b) On 5 July 2019 and 21 August 2019, as part of the Reorganisation, the Company allotted and issued 604,702 and 395,288 ordinary shares, credited as fully paid, respectively to the Controlling Shareholders and the then shareholders. Further details are set out in the paragraphs headed "Reorganisation" in the section headed "History and Development" to the Prospectus.
- (c) Pursuant to an ordinary resolution on 24 October 2019, every authorised and issued ordinary share of HK\$0.1 each was subdivided into 10 ordinary shares of HK\$0.01 each. The authorised share capital of the Company became HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and the issued share capital became HK\$100,000 divided into 10,000,000 shares.
- (d) There was no authorised and issued capital as at 31 December 2017 and 2018 since the Company had not yet been incorporated.

26. RESERVES

26.1 The Group

The amounts of the Group's reserves and the movements therein for the Track Record Period are presented in the consolidated statements of changes in equity of the Historical Financial Information.

Capital reserve

The capital reserve of the Group as at 31 December 2017, 2018 and 2019 and 31 March 2020 represents the share capital of entities comprising the Group as a result of the Reorganisation and the reserves arising from the business combination under common control.

Statutory reserve

In accordance with the Company Law of the PRC, each of the subsidiaries of the Company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after income tax (after offsetting any prior years' losses), determined in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP"), to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital.

26.2 The Company

Movement in the Company's reserves

	Capital reserve	Accumulated losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 11 June 2019 (date of incorporation)	—	—	—
Reserve arising from the Reorganisation	114,759	—	114,759
As at 31 December 2019	<u>114,759</u>	<u>—</u>	<u>114,759</u>
Loss and total comprehensive expense for the period	—	(112)	(112)
As at 31 March 2020	<u>114,759</u>	<u>(112)</u>	<u>114,647</u>

27. RELATED PARTY TRANSACTIONS

Other than as disclosed in elsewhere to the Historical Financial Information, the Group entered into the following material related party transactions during the Track Record Period.

27.1 Transactions with related parties

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Sales of goods to related companies					
– CSA Technic (<i>note a</i>)	2,682	–	–	–	–
– Sum Technic	–	7,819	705	649	–
– Micronaire Global Sdn. Bhd. (<i>note b</i>)	–	370	101	39	23
	<u>–</u>	<u>8,189</u>	<u>806</u>	<u>688</u>	<u>23</u>
Purchase of goods from a related company					
– Sum Technic	–	–	3,335	–	669
	<u>–</u>	<u>–</u>	<u>3,335</u>	<u>–</u>	<u>669</u>
Purchase of plant and machinery from a related company					
– Sum System	652	–	–	–	–
	<u>652</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note:

- (a) Before the acquisition of CSA Technic by the Group as disclosed in note 30, CSA Technic is a related company controlled by Ng Yew Sum and Chin Sze Kee, two of the Controlling Shareholders of the Company.
- (b) Micronaire Global Sdn. Bhd. is a related company controlled by Ng Yew Sum, Francis Chia Mong Tet, Chin Sze Kee, Law Eng Hock, Yap Chui Fan and Lim Kai Seng, the Controlling Shareholders of the Company.

The above transactions were conducted in the Group's normal course of business and at prices and terms no less than those charged to and contracted with other third party suppliers of the Group.

27.2 Key management personnel remuneration

	Year ended 31 December			Three months ended 31 March	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Salaries, allowances and other benefits	7,212	6,349	8,204	994	1,038
Retirement scheme contributions	502	400	687	76	77
	<u>7,714</u>	<u>6,749</u>	<u>8,891</u>	<u>1,070</u>	<u>1,115</u>

28. CAPITAL CONTRIBUTIONS FROM THE CONTROLLING SHAREHOLDERS

During the year ended 31 December 2017, Channel Systems (Asia) disposed of 100% equity interests in Channel Systems (Shanghai) to the Controlling Shareholders and the then shareholders at an aggregate consideration of USD350,000 (equivalent to approximately RMB2,487,000) (the "Disposal"). As Channel Systems (Shanghai) was under the common control of the Controlling Shareholders prior to and after the Disposal, which do not result in any change in control of Channel Systems (Shanghai), the considerations of RMB1,408,000 and RMB1,079,000 received were accounted for as the capital contributions from the Controlling Shareholders and the non-controlling interests respectively.

29. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

During the year ended 31 December 2018, the Group acquired additional 11% and 2% equity interests in Max Micron and Channel CR Material respectively which results the Group's shareholding in Max Micron and Channel CR Material increased from 89% to 100% and from 51% to 53% respectively. Since the acquisition of such additional interests do not result in any change in control of Max Micron and Channel CR Material, the transactions were accounted for as an equity transaction between the equity holders of the Company and the non-controlling interests.

30. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2017, the Group acquired 100% equity interests in CSA Technic from Ng Yew Sum and Chin Sze Kee, two of the Controlling Shareholders of the Company, at a cash consideration of RMB4 (equivalent to approximately RM2). CSA Technic had remained inactive since its incorporation until March 2017, when the Group decided to acquire, and Ng Yew Sum and Chin Sze Kee decided to dispose of their equity interests in CSA Technic, and therefore the consideration was determined based on the paid up capital of CSA Technic, which was RMB4 (equivalent to approximately RM2). After the transfer was agreed but during the process of finalising the transfer documents and completing the transfer, the Group

conducted certain business transactions through CSA Technic, and as a result, CSA Technic recorded identifiable net assets of RMB788,000 as at the date of completion (i.e. the date when the Group obtains control of CSA Technic). The Group considered the acquisition as acquisition of business and therefore, a bargain purchase of RMB788,000 arises from such acquisition. Prior to the completion of the acquisition, CSA Technic was engaged in trading of cleanroom walls and ceiling systems and component parts.

The fair values of the identifiable assets and liabilities acquired at the date of acquisition were as follows:

	<i>RMB'000</i>
Cash and cash equivalents	2,518
Trade and other payables	(73)
Amount due to related parties	(1,406)
Income tax payable	<u>(251)</u>
Total identifiable net assets acquired	788
Gain on bargain purchase (<i>note 6</i>)	<u>(788)</u>
Consideration paid in cash	<u><u>—*</u></u>

Net cash inflow on the acquisition of a subsidiary:

	<i>RMB'000</i>
Consideration paid in cash	—*
Less: cash and cash equivalents acquired	<u>(2,518)</u>
Net cash inflow	<u><u>(2,518)</u></u>

* The amount represented an amount less than RMB1,000.

From the date of acquisition, acquired subsidiary has contributed RMB5,576,000 and RMB147,000 to the Group's revenue and profit for the year ended 31 December 2017, respectively.

If the combination had taken place at the beginning of the financial year, the Group's revenue and profit for the year ended 31 December 2017 from its continuing operations would have been RMB140,130,000 and RMB23,504,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

31. MATERIAL NON-CONTROLLING INTERESTS

The following table lists out the information related to the subsidiaries of the Group, which have material non-controlling interests ("NCI") as at 31 December 2017, 2018 and 2019 and 31 March 2020. The details and the summarised financial information are as follows, before intra-group eliminations.

	Channel Systems (Asia)	
	As at 31 December	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>
Proportion of ownership interests and voting rights held by the NCI	<u>43%</u>	<u>43%</u>
Non-current assets	2,519	2,921
Current assets	29,581	28,605
Current liabilities	(7,354)	(6,121)
Non-current liabilities	<u>(176)</u>	<u>(125)</u>
Net assets	<u>24,570</u>	<u>25,280</u>
Carrying amount of NCI	<u>10,663</u>	<u>10,971</u>

	Channel Systems (Asia)			
	Year ended 31 December		Period from 1 January 2019 to 4 July	Three months ended 31 March
	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Revenue	40,015	29,146	13,271	5,246
Profit/(Loss) for the year/period	4,720	747	(302)	714
Other comprehensive income/(expense) for the year/period	843	860	(107)	(313)
Total comprehensive income/(expense) for the year/period	<u>5,563</u>	<u>1,607</u>	<u>(409)</u>	<u>401</u>
Profit/(Loss) attributable to NCI	<u>2,048</u>	<u>324</u>	<u>(131)</u>	<u>310</u>
Total comprehensive income/(expense) attributable to NCI	<u>2,414</u>	<u>697</u>	<u>(178)</u>	<u>174</u>
Dividend paid to NCI	<u>—</u>	<u>—</u>	<u>1,787</u>	<u>—</u>
Net cash flows generated from/(used in) operating activities	547	3,256	(1,745)	(1,075)
Net cash flows generated from/(used in) investing activities	2,097	(794)	112	21
Net cash flows (used in)/generated from financing activities	<u>(6,638)</u>	<u>(460)</u>	<u>3,873</u>	<u>3,513</u>
Net (decrease)/increase in cash and cash equivalents	<u>(3,994)</u>	<u>2,002</u>	<u>2,240</u>	<u>2,459</u>

	CSA Technic	
	As at 31 December	
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>
Proportion of ownership interests and voting rights held by the NCI	43%	43%
Non-current assets	–	42
Current assets	5,347	10,450
Current liabilities	(3,907)	(4,089)
Non-current liabilities	–	–
Net assets	1,440	6,403
Carrying amount of NCI	625	2,779

	CSA Technic			
	Year ended 31 December		Period from 1 January 2019 to 4 July	Three months ended 31 March
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)
Revenue	5,576	19,358	60	43
Profit/(Loss) for the year/period	936	4,921	(464)	(126)
Other comprehensive income/(expense) for the year/period	22	127	(22)	(78)
Total comprehensive income/(expense) for the year/period	958	5,048	(486)	(204)
Profit/(Loss) attributable to NCI	406	2,136	(201)	(55)
Total comprehensive income/(expense) attributable to NCI	416	2,191	(211)	(89)
Dividend paid to NCI	–	–	–	–
Net cash flows (used in)/generated from operating activities	(1,895)	6,854	(817)	68
Net cash flows generated from investing activities	8	2	5	5
Net cash flows generated from financing activities	2,956	498	4	14
Net increase/(decrease) in cash and cash equivalents	1,069	7,354	(808)	87

	Channel Systems (Shanghai)	
	As at 31 December	
	2017 RMB'000	2018 RMB'000
Proportion of ownership interests and voting rights held by the NCI	43%	43%
Non-current assets	3,720	6,036
Current assets	62,432	66,936
Current liabilities	(19,040)	(16,547)
Non-current liabilities	(315)	(2,488)
Net assets	46,797	53,937
Carrying amount of NCI	20,310	23,409

	Channel Systems (Shanghai)			
	Year ended 31 December		Period from 1 January 2019 to 4 July	Three months ended 31 March
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)
Revenue	63,654	77,521	68,582	31,026
Profit for the year/period	10,860	16,201	16,791	8,569
Other comprehensive income for the year/period	—	—	—	—
Total comprehensive income for the year/period	10,860	16,201	16,791	8,569
Profit attributable to NCI	4,713	7,031	7,287	3,719
Total comprehensive income attributable to NCI	4,713	7,031	7,287	3,719
Dividend paid to NCI	—	3,533	5,919	5,919
Net cash flows generated from operating activities	7,102	17,419	9,280	11,476
Net cash flows (used in)/generated from investing activities	(3,994)	2,323	(7,826)	(8,898)
Net cash flows used in financing activities	(2,995)	(8,189)	(12,585)	(15,055)
Net increase/(decrease) in cash and cash equivalents	113	11,553	(11,131)	(12,477)

	Channel CR Material			
	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proportion of ownership interests and voting rights held by the NCI	39%	41%	6%	6%
Non-current assets	26	7	2	2
Current assets	11,710	11,548	19,785	17,177
Current liabilities	(8,276)	(4,154)	(9,669)	(6,640)
Non-current liabilities	—	—	—	—
Net assets	3,460	7,401	10,118	10,539
Carrying amount of NCI	1,352	3,003	656	683

	Channel CR Material				
	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Revenue	10,764	31,757	10,764	5,034	10,764
Profit for the year/period	2,525	3,876	2,717	1,211	421
Other comprehensive income for the year/period	—	—	—	—	—
Total comprehensive income for the year/period	2,525	3,876	2,717	1,211	421
Profit attributable to NCI	986	1,624	634	491	27
Total comprehensive income attributable to NCI	986	1,624	634	491	27
Dividend paid to NCI	—	—	—	—	—
Net cash flows (used in)/generated from operating activities	(881)	5,741	(157)	(82)	(329)
Net cash flows (used in)/generated from investing activities	—	(3,934)	194	35	4,014
Net cash flows generated from/(used in) financing activities	1,022	(36)	14	—	—
Net increase/(decrease) in cash and cash equivalents	141	1,771	51	(47)	3,685

32. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

During the year ended 31 December 2017, Channel Systems (Shanghai) has issued the share capital of RMB13,669,000 by offsetting the retained profits as agreed by the Controlling Shareholders.

During the years ended 31 December 2017, 2018 and 2019, additions to property, plant and equipment of RMB992,000, RMB3,711,000 and RMB823,000, respectively were financed by the lease arrangements.

During the year ended 31 December 2019, dividend of RMB3,611,000 was offset with the amounts due from related parties as agreed by the shareholders.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliations of liabilities arising from financing activities for the Track Record Period, are as follows:

	Amounts due to related parties	Lease liabilities	Borrowings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2017	77	2,940	3,846	6,863
Cash-flows:				
– Repayment	(1,433)	(1,543)	(683)	(3,659)
Non-cash:				
– Additions of liabilities	–	992	–	992
– Acquisition of a subsidiary	1,406	–	–	1,406
– Exchange differences	4	40	132	176
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2017 and 1 January 2018	54	2,429	3,295	5,778
Cash-flows:				
– Repayment	(52)	(1,892)	(3,405)	(5,349)
– Proceeds	–	–	14,746	14,746
Non-cash:				
– Additions of liabilities	–	3,711	–	3,711
– Exchange differences	1	24	294	319
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	Amounts due to related parties <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Borrowings <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2018 and 1 January 2019	3	4,272	14,930	19,205
Cash-flows:				
– Repayment	(26)	(1,957)	(583)	(2,566)
Non-cash:				
– Additions of liabilities	52	776	–	828
– Exchange differences	(3)	11	328	336
	<u>3</u>	<u>4,272</u>	<u>14,930</u>	<u>19,205</u>
As at 31 December 2019 and 1 January 2020	26	3,102	14,675	17,803
Cash-flows:				
– Repayment	(12)	(461)	(159)	(632)
– Proceeds	–	–	4,000	4,000
Non-cash:				
– Additions of liabilities	119	–	–	119
– Exchange differences	2	(17)	(524)	(539)
	<u>26</u>	<u>3,102</u>	<u>14,675</u>	<u>17,803</u>
As at 31 March 2020	<u>135</u>	<u>2,624</u>	<u>17,992</u>	<u>20,751</u>
As at 1 January 2019	3	4,272	14,930	19,205
Cash-flows:				
– Repayment	–	(411)	(159)	(570)
Non-cash:				
– Additions of liabilities	97	149	–	246
– Exchange differences	1	(5)	(182)	(186)
	<u>3</u>	<u>4,272</u>	<u>14,930</u>	<u>19,205</u>
As at 31 March 2019 (unaudited)	<u>101</u>	<u>4,005</u>	<u>14,589</u>	<u>18,695</u>

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

34.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of financial assets and liabilities:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
<i>Financial assets at amortised cost:</i>				
– Trade and other receivables	44,771	32,617	60,246	40,351
– Amounts due from related parties	3,309	3,453	12	3
– Pledged bank deposits	3,250	1,188	622	622
– Cash and cash equivalents	26,278	68,411	34,621	57,021
<i>Financial assets at FVTPL:</i>				
– Bank wealth management products	–	4,000	9,000	–
	<u>77,608</u>	<u>109,669</u>	<u>104,501</u>	<u>97,997</u>
Financial liabilities				
<i>Financial liabilities measured at amortised cost:</i>				
– Trade and other payables	32,572	23,371	45,574	25,339
– Amounts due to related parties	54	3	26	135
– Lease liabilities	2,429	4,272	3,102	2,624
– Borrowings	3,295	14,930	14,675	17,992
	<u>38,350</u>	<u>42,576</u>	<u>63,377</u>	<u>46,090</u>

34.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk mainly arises from its overseas sales and purchases, which are primarily denominated in USD and Singapore dollars ("SGD") and the Group's cash and cash equivalents denominated in foreign currencies, which are primarily denominated in USD and SGD. These are not the functional currency of the group entities to which these transactions relate.

The financial assets and liabilities denominated in USD and SGD, translated into RMB at the closing rates, are as follows:

	USD <i>RMB'000</i>	SGD <i>RMB'000</i>
As at 31 December 2017		
Trade and other receivables	15,697	5,251
Amounts due from related parties	3,415	–
Cash and bank balances	16,733	2,799
Trade and other payables	(571)	(330)
	<u>35,274</u>	<u>7,720</u>
Overall net exposures	<u>35,274</u>	<u>7,720</u>
As at 31 December 2018		
Trade and other receivables	8,082	3,702
Amounts due from related parties	2,224	–
Cash and bank balances	3,876	3,900
Trade and other payables	(421)	(173)
	<u>13,761</u>	<u>7,429</u>
Overall net exposures	<u>13,761</u>	<u>7,429</u>
As at 31 December 2019		
Trade and other receivables	8,248	5,783
Cash and bank balances	3,427	192
Trade and other payables	(222)	(91)
	<u>11,453</u>	<u>5,884</u>
Overall net exposures	<u>11,453</u>	<u>5,884</u>
As at 31 March 2020		
Trade and other receivables	6,107	8,703
Cash and bank balances	4,830	1,208
Trade and other payables	(190)	(44)
	<u>10,747</u>	<u>9,867</u>
Overall net exposures	<u>10,747</u>	<u>9,867</u>

The following table illustrates the sensitivity of the Group's profit after income tax for the Track Record Period and equity as at 31 December 2017, 2018 and 2019 and 31 March 2020 in regard to an appreciation in the functional currency of respective group entities against USD and SGD. These sensitivity rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

	Sensitivity rate %	Decrease in profit for the year/ period RMB'000	Decrease in equity RMB'000
Year ended 31 December 2017			
USD	5%	1,428	1,428
SGD	5%	293	293
		<u> </u>	<u> </u>
Year ended 31 December 2018			
USD	5%	536	536
SGD	5%	282	282
		<u> </u>	<u> </u>
Year ended 31 December 2019			
USD	5%	442	442
SGD	5%	224	224
		<u> </u>	<u> </u>
Three months ended 31 March 2020			
USD	5%	417	417
SGD	5%	375	375
		<u> </u>	<u> </u>

The same percentage depreciation in the functional currency of respective group entities against the respective foreign currencies would have the same magnitude on the Group's profit after income tax for the Track Record Period and equity as at 31 December 2017, 2018 and 2019 and 31 March 2020 but of opposite effect.

The Group does not hedge its foreign currency risk with USD and SGD. However, management monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

34.3 Interest rate risk

The Group has no significant interest-bearing assets/liabilities except for the bank balances and borrowings which are bearing variable rates, details of which have been disclosed in notes 20 and 23 respectively.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after income tax and accumulated profits by approximately RMB62,000, RMB219,000, RMB69,000 and RMB157,000, respectively. The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The Group currently does not have an interest rate hedging policy. However, the management monitors the Group's interest rate exposure and will consider hedging significant interest exposure should the need arise.

34.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from cash and cash equivalents, as well as granting credit to customers in the ordinary course of its operations.

The Group's maximum exposure to credit risk for the components of the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 31 March 2020 is the carrying amount as disclosed in note 34.1.

Trade receivables and contract assets

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the management. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Customers who are not considered creditworthy are required to pay in advance or upon goods and services transferred. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

In addition, as set out in note 2.8, the Group assesses ECL under HKFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 24 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables and contract assets are written-off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 365 days after the credit period from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2017, 2018 and 2019 and 31 March 2020, trade receivables and contract assets from an individual customer accounted for 38%, 32%, 26% and 36% of the total trade receivables and contract assets, respectively.

On the above basis, the ECL for trade receivables and contract assets as at 31 December 2017, 2018 and 2019 and 31 March 2020 was determined as follows:

	Current RMB'000	1-365 days past due RMB'000	366-730 days past due RMB'000	More than 730 days past due RMB'000	Total RMB'000
As at 31 December 2017					
ECL rate (<i>note</i>)	0% to 4%	9% to 10%	14% to 68%	57% to 73%	
Gross carrying amount					
– trade receivables	22,336	22,150	485	991	45,962
– contract assets	24,130	–	–	–	24,130
Lifetime ECL	<u>1,600</u>	<u>2,009</u>	<u>146</u>	<u>722</u>	<u>4,477</u>
As at 31 December 2018					
ECL rate (<i>note</i>)	0% to 4%	3% to 9%	11% to 48%	54% to 55%	
Gross carrying amount					
– trade receivables	10,347	22,387	519	1,089	34,342
– contract assets	22,634	–	–	–	22,634
Lifetime ECL	<u>1,135</u>	<u>1,480</u>	<u>107</u>	<u>592</u>	<u>3,314</u>
As at 31 December 2019					
ECL rate (<i>note</i>)	0% to 4%	3% to 9%	11% to 15%	55% to 93%	
Gross carrying amount					
– trade receivables	39,682	15,586	680	995	56,943
– contract assets	50,718	–	–	–	50,718
Lifetime ECL	<u>3,071</u>	<u>1,046</u>	<u>90</u>	<u>943</u>	<u>5,150</u>
As at 31 March 2020					
ECL rate (<i>note</i>)	0% to 4%	4% to 5%	10% to 35%	55% to 98%	
Gross carrying amount					
– trade receivables	6,905	23,230	1,398	1,136	32,669
– contract assets	35,123	–	–	–	35,123
Lifetime ECL	<u>1,518</u>	<u>1,085</u>	<u>186</u>	<u>1,105</u>	<u>3,894</u>

Note: To measure the ECL, different ECL rates were used for different group of trade receivables and contract assets with similar shared credit risk characteristics and the days past due.

Other financial assets

Other financial assets include bill receivables, other receivables, amounts due from related parties, investments in bank wealth management products, pledged bank deposits and cash and cash equivalents. In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables is considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 2.8 and, thus, ECL recognised is based on 12-month ECL. As at 31 December 2017, 2018 and 2019 and 31 March 2020, the ECL rate applied for other receivables ranging from 0% to 8%, 0% to 7%, 0% to 9% and 0% to 5%, respectively.

The credit risks on bill receivables, investments in bank wealth management products, pledged bank deposits and cash and cash equivalents are considered to be insignificant because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. There has been no recent history of default in relation to these banks.

The Group's credit risk on amounts due from related parties are considered to have low credit risks as they have a low risk of default and the counterparties have strong capacity to meet their contractual cash flow obligation in the near term.

34.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of its financing obligations and its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity as at 31 December 2017, 2018 and 2019 and 31 March 2020. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Within one year or on demand <i>RMB'000</i>	Over one year but within five years <i>RMB'000</i>	Total undiscounted amount <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
As at 31 December 2017				
Trade and other payables	32,572	–	32,572	32,572
Amounts due to related parties	54	–	54	54
Lease liabilities	1,612	929	2,541	2,429
Borrowing	3,295	–	3,295	3,295
	<u>37,533</u>	<u>929</u>	<u>38,462</u>	<u>38,350</u>
As at 31 December 2018				
Trade and other payables	23,371	–	23,371	23,371
Amounts due to related parties	3	–	3	3
Lease liabilities	1,729	2,820	4,549	4,272
Borrowing	14,930	–	14,930	14,930
	<u>40,033</u>	<u>2,820</u>	<u>42,853</u>	<u>42,576</u>
As at 31 December 2019				
Trade and other payables	45,574	–	45,574	45,574
Amounts due to related parties	26	–	26	26
Lease liabilities	1,735	1,520	3,255	3,102
Borrowing	14,675	–	14,675	14,675
	<u>62,010</u>	<u>1,520</u>	<u>63,530</u>	<u>63,377</u>
As at 31 March 2020				
Trade and other payables	25,339	–	25,339	25,339
Amounts due to related parties	135	–	135	135
Lease liabilities	1,629	1,112	2,741	2,624
Borrowings	18,142	–	18,142	17,992
	<u>45,245</u>	<u>1,112</u>	<u>46,357</u>	<u>46,090</u>

Bank loan with a repayment on demand clause are included in the “One year or on demand” time band in the above maturity analysis.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the aggregate undiscounted principal and interest of the bank loan payable in accordance with the scheduled payment terms was RMB3,671,000, RMB22,950,000, RMB22,010,000 and RMB20,849,000, respectively.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, taking into account of the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise its discretionary right to demand immediate repayment. Included in the above balances, the directors of the Company believe that such bank loan will be repaid in accordance with the scheduled repayment dates as set out in the loan agreement.

34.6 Fair value measurements of financial instruments

Financial assets and liabilities measured at fair values in the consolidated statements of financial position are grouped into three levels fair value hierarchy. The three levels are defined based on the observability and significance of inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.
- Level 3: significant unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The fair value measurement hierarchy of the Group's financial instruments is as follows:

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2018				
Financial assets at FVTPL:				
– Bank wealth management products	–	–	4,000	4,000
	<u>–</u>	<u>–</u>	<u>4,000</u>	<u>4,000</u>
As at 31 December 2019				
Financial assets at FVTPL:				
– Bank wealth management products	–	–	9,000	9,000
	<u>–</u>	<u>–</u>	<u>9,000</u>	<u>9,000</u>

During the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, there were no transfers between Level 1, Level 2 and Level 3.

The fair values of the financial assets at FVTPL as at 31 December 2018, 2019 are estimated based on cash flow discounted using the expected return based on management judgement and estimates. The valuation technique and significant unobservable input of the fair values of the financial assets at FVTPL are as follows:

	Valuation technique	Significant unobservable input	Sensitivity relationship of unobservable input to fair value
As at 31 December 2018	Discounted cash flow	Discount rate of 4.35%	Should the discount rate be increased/decreased by 50 basis points, the fair value of the bank wealth management products would be decreased/increased by approximately RMB1,000.
As at 31 December 2019	Discounted cash flow	Discount rate of 4.35%	Should the discount rate be increased/decreased by 50 basis points, the fair value of the bank wealth management products would be decreased/increased by approximately RMB3,000.

The management considered the carrying amounts of other financial assets and liabilities of the Group are not materially different from their fair values as at 31 December 2017, 2018 and 2019 and 31 March 2020 due to immediate or short term of maturity.

35. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders. The Group manages capital by regularly monitoring its current and expected liquidity requirements.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, debt is defined as borrowings and lease liabilities net of pledged bank deposits and cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing.

The net debt to equity ratio at each reporting date was as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities	2,429	4,272	3,102	2,624
Borrowings	3,295	14,930	14,675	17,992
Total borrowings	5,724	19,202	17,777	20,616
Less: pledged bank deposits	(3,250)	(1,188)	(622)	(622)
cash and cash equivalents	(26,278)	(68,411)	(34,621)	(57,021)
Net debt	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total equity	<u>112,822</u>	<u>139,843</u>	<u>141,901</u>	<u>140,769</u>
Net debt to equity ratio	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

36. CAPITAL COMMITMENTS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for Property, plant and equipment	<u>—</u>	<u>—</u>	<u>741</u>	<u>798</u>

37. LEASE COMMITMENTS**As lessee**

As at 31 March 2020, the Group had committed to a short-term lease for a warehouse in which the lease had not yet commenced. The total future cash outflows for this lease amounting to approximately RMB441,000 in aggregate which is payable within one year.

III. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2020:

- Pursuant to a written resolution passed by the shareholders of the Company on 3 September 2020, subject to the Global Offering becoming unconditional and the share premium account of the Company having sufficient balance, the directors of the Company will be authorised to, among other things, capitalise the amount of approximately HK\$10,400,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par a total of 1,040,000,000 shares for allotment and issue to the shareholders of the Company.
- After the outbreak of novel coronavirus (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the regions in which the Group has business operations. The Group has paid attention to the development of the COVID-19 outbreak and evaluate its impact on the financial and operating results of the Group. Further details are set out in the paragraphs headed “Recent outbreak of COVID-19” in the section headed “Summary” to the Prospectus.

IV. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2020.

The information set forth in this appendix does not form part of the Accountants' Report prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I of this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I of this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2020, as if the Global Offering had taken place on 31 March 2020.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to equity holders of the Company had the Global Offering been completed as at 31 March 2020 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2020 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2020 RMB'000 (note 1)	Estimated net proceeds from the Global Offering RMB'000 (note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company RMB'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share	
				RMB (note 3)	HK\$ (note 5)
Based on the Offer Price of HK\$0.40 per Share	140,086	74,675	214,761	0.15	0.17
Based on the Offer Price of HK\$0.36 per Share	140,086	65,063	205,149	0.15	0.17

Note:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as at 31 March 2020 is extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 March 2020 of approximately RMB140,086,000.
- (2) The estimated net proceeds from the Global Offering are based on 350,000,000 Offer Shares at the Offer Price of HK\$0.40 (equivalent to RMB0.35) per Share and HK\$0.36 (equivalent to RMB0.32) per Share, being the high end and low end of the indicative Offer Price range respectively, after deduction of relevant estimated underwriting commissions and fees, the incentive fee that can be payable to the Joint Bookrunners (or any one of them) in the Company's sole and absolute discretion and other related fees expected to be incurred by the Group subsequent to 31 March 2020.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share is calculated based on 1,400,000,000 Shares in issue, being the number of Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Global Offering. Specifically, the unaudited pro forma financial information presented above does not take into account of the proposed dividend of RMB15,000,000 on 9 July 2020. Had the effect of such dividend been taken into account and with all other bases and assumptions for the calculation remaining the same, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company per Share under the high end and low end of the indicative Offer Price would have become HK\$0.16 (equivalent to RMB0.14) per Share and HK\$0.16 (equivalent to RMB0.14) per Share, respectively.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2020 to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2020.
- (5) In connection with the preparation of this unaudited pro forma statement of adjusted consolidated net tangible assets, the translation of Renminbi into Hong Kong dollars has been made at a rate of RMB0.8802 to HK\$1.00.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF CHANNEL MICRON HOLDINGS COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Channel Micron Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") prepared by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 March 2020 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 22 September 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the global offering of the Company's shares (the "Global Offering") on The Stock Exchange of Hong Kong Limited on the Group's financial position as at 31 March 2020 as if the Global Offering had taken place at 31 March 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for the year ended 31 March 2020, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

22 September 2020

Lin Ching Yee Daniel

Practising Certificate No.: P02771

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 July 2020 of the property interest held by the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7th Floor, One Taikoo Place
979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

22 September 2020

The Board of Directors
Channel Micron Holdings Company Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the property interest held by Channel Micron Holdings Company Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in Malaysia, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interest as at 31 July 2020 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the buildings of property and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interest has been valued by the cost approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest are subject to adequate potential profitability of the concerned business.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of various title documents including land title document, certificates of fitness for occupation (now known as certificates of completion and compliance) and official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the country and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's Malaysia legal advisers — Gan Partnership, concerning the validity of the property interest in Malaysia.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 12 June 2019 by Mr. Vincent Pang Jia Jiun. Mr. Vincent Pang Jia Jiun has more than 2 year's experience in the valuation of properties in Malaysia.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Malaysia Ringgit. The exchange rate adopted in our valuation is approximately RM1=HKD1.83 which was approximately the prevailing exchange rate as at the valuation date.

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on the 11th March 2020 has caused much disruption to economic activities around the world. As of the report date, economy of certain Asia countries are experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in this particular market sector remains stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of this property under frequent review.

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T.W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 26 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest held for owner-occupation by the Group in Malaysia

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2020 <i>RM</i>
Lot PT 14274, Jalan SU 8, Persiaran Tengku Ampuan, Shah Alam, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia	<p>The property comprises a parcel of industrial land with a site area of approximately 4,515 sq.m. and 3 buildings erected thereon which were completed in 1997.</p> <p>The buildings include a detached factory, office building and a guard house with a total gross floor area ("GFA") of approximately 4,094.5 sq.m. Details of the area breakdown are shown in note 4.</p> <p>The land is located along Jalan SU 8, Persiaran Tengku Ampuan, which is about 30 km from Kuala Lumpur City Centre and about 25 km from the Port Klang.</p> <p>The surroundings are mixed development in character, including individually designed detached factories, terrace factories, double to three storey shop/office, commercial free-standing buildings, as well as single and double storey terrace houses.</p> <p>The property is held under freehold interest.</p>	<p>Portions of the property were rented to various parties while the remaining portions were owner-occupied for manufacturing and office purpose as at the valuation date. (refer to note 7)</p>	<p>17,100,000 (equivalent to HKD31,293,000)</p>

Notes:

1. The registered owner of the property is Micron (M) Sdn. Bhd., an indirectly wholly owned subsidiary of the Company.
2. Pursuant to the title search at the Registry of Land Titles, Selangor, the title particular of the property is as follows:-
 - a.

Lot No.	Title No.	Registered Proprietor	Land Use	Annual Rent (RM)	Site Area (sq.m.)
Lot PT 14274	GRN 177273	Micron (M) Sdn. Bhd.	Industrial	4,764	4,515

- b. The property is subject to a mortgage charge in favor of Public Bank Berhad vide Presn dated on 18 October 2018 under the presentation no. 93220/2018.
3. According to Zoning Plan published by Selangor Town and Rural Planning Department (JPBD Selangor), the property is zoned for industrial use.
4. Pursuant to an approved Building Plan No. MBSA/BBN/BB/600-2(PB)/SEK:22/0341-2008, the total GFA of the buildings is approximately 4,094.5 sq.m. Details of GFA breakdown are as below.

Building	Storey	GFA (sq.m.)
Detached Factory	1 with mezzanine floor	2,475
Office	3	1,610.5
Guard house	1	9
Total		4,094.5

5. Pursuant to a Certificate of Fitness for Occupation ("CF") – MDP No.1437 issued on 8 January 1997 by Subang Jaya Municipal Council, the building with 3-storey office and 1 storey factory are fit for occupation.
6. Pursuant to a Certificate of Completion and Compliance ("CCC") – LJM/S/3813 issued on 27 May 2019 by IR. Yap Wai Hoong, the proposed construction of mezzanine level for the building with 3-storey office and 1 storey factory which are ready built on the land parcel are certified to have been completed.
7. Pursuant to 6 Tenancy Agreements, as at valuation date, certain portions of the property with a total lettable area of approximately 3,644.64 sq.m. were leased to various lessees (including 3,345 sq.m. which is under intra-group leases) for terms expiring between 31 December 2020 and 28 February 2021 at a total monthly rent of RM60,003.57, exclusive of management fees, water and electricity charges.
8. We have been provided with a legal opinion regarding the property interests by the Company's Malaysia Legal Advisers, which contains, inter alia, the following:
 - a. Micron (M) Sdn. Bhd. is entitled to freely occupy, use and/or lease the property;
 - b. the property may be transferred, disposed or charged at any time without obtaining the State consent. However, the land title of the property is currently subject to the mortgage charge as mentioned in Note 2(b). Thus, the charge must be fully satisfied and discharged prior to any disposal and transfer of the property.
9. Our valuation has been made on the following basis and analysis:
 - a. we have identified and analyzed various relevant sales evidences in the locality which have similar characteristics as the land portion of the subject property such as nature, use, site area, figure and accessibility. The selected comparables are located in the same industrial area or neighbouring industrial area, which were transacted between 2018 and 2019. The unit rate of the land portion of these comparable ranges about RM2,257.32 to RM3,500.35 per sq.m.on site area basis. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the land portion of the subject property to arrive at our assumed unit rate for the land portion.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2019 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Memorandum of Association (the “**Memorandum**”) and its Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 3 September 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of

the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of

its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means accepted by or in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors**(i) Appointment, retirement and removal**

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following

paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange. A meeting of shareholders or any class thereof may be held by means of such telephone, electronic or other communication facilities as to permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence at such meeting.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's

registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on

which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares,

including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 21 June 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting

shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("**ES Law**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 11 June 2019. Our registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. We established a principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 29 November 2019. Ms. Wong Pui Yin, Peony and Ms. Li Yan Wing Rita have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As a company incorporated in the Cayman Islands, our operations are subject to the Memorandum of Association, the Articles of Association and the Cayman Islands company law. A summary of certain provisions of the Memorandum of Association, the Articles of Association and certain aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in the share capital of our Company

As of the date of incorporation of our Company, our Company had an authorised share capital of HK\$380,000, divided into 3,800,000 Pre-subdivision Shares of HK\$0.1 each. 10 Pre-subdivision Shares were allotted and issued on the date of incorporation of our Company.

On 5 July 2019, as part of the Reorganisation, our Company allotted and issued 604,702 Pre-subdivision Shares, credited as fully paid. On 21 August 2019, as part of the Reorganisation, our Company allotted and issued 395,288 Pre-subdivision Shares. As at 21 August 2019, a total of 1,000,000 Pre-subdivision Shares were issued. The shareholding structure of our Company is set out in the "History and Development".

On 24 October 2019, our then Shareholders passed an ordinary resolution to approve the Share Subdivision, pursuant to which, every issued and unissued ordinary share of HK\$0.1 par value in our Company was subdivided into 10 ordinary shares of HK\$0.01 par value each. The authorised share capital of our Company became HK\$380,000 divided into 38,000,000 Shares and the issued share capital became HK\$100,000 divided into 10,000,000 Shares.

On 3 September 2020, the authorised share capital of our Company was increased by HK\$99,620,000 by the creation of 9,962,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each.

Assuming that the Global Offering and the Capitalisation Issue become unconditional, immediately following the completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of the options which may

be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$14,000,000, divided into 1,400,000,000 Shares, all fully paid or credited as fully paid.

Save as disclosed above and in “3. Resolutions in writing of our Shareholders passed on 3 September 2020” below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of our Shareholders passed on 3 September 2020

Pursuant to the written resolutions passed by our Shareholders on 3 September 2020:

- (a) we approved and adopted the Memorandum of Association and the Articles of Association with effect from the Listing Date respectively;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 Shares;
- (c) subject to the conditions set out in “Structure of the Global Offering — Conditions of the Global Offering” having been fulfilled or waived:
 - (i) the Global Offering and the Capitalisation Issue were approved and the Directors were authorised to allot and issue the new Shares pursuant to the Global Offering and the Capitalisation Issue;
 - (ii) the Listing was approved and the Directors were authorised to implement the Listing;
 - (iii) subject to the restrictions under Rule 10.08 of the Listing Rules, a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to (aa) a rights issue, (bb) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares, (cc) the exercise of options granted pursuant to the Share Option Scheme, (dd) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme (subject to adjustment in the case of a consolidation or subdivision of the Shares) and (2) the number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in sub-paragraph (iv) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of our next

annual general meeting, (II) the expiry of the period within which we are required by any applicable laws or the Articles of Association to hold our next annual general meeting and (III) the date on which the authority given to the Directors by this resolution is revoked or varied by an ordinary resolution of our Shareholders in general meeting (the “**Relevant Period**”);

- (iv) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and the requirements of the Listing Rules, not exceeding 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme (subject to adjustment in the case of a consolidation or subdivision of the Shares), such mandate to remain in effect during the Relevant Period; and
- (d) conditional upon the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme and the commencement of trading of the Shares on the Stock Exchange, the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to grant options to subscribe for Shares, and to allot, issue and deal with the Shares pursuant to the exercise of the options granted under the Share Option Scheme, in accordance with the rules of the Share Option Scheme.

4. Our subsidiaries

Certain details of our subsidiaries are set out in Appendix I to this prospectus. Save as set out in Appendix I to this prospectus, we do not have any other subsidiaries.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

Channel Micron (BVI)

On 12 June 2019, one subscriber share in Channel Micron (BVI) was allotted and issued to our Company. On 5 July 2019, two shares in Channel Micron (BVI) were allotted and issued to our Company. On 21 August 2019, one share in Channel Micron (BVI) was allotted and issued to our Company.

Channel Systems (HK)

On 21 June 2019, one subscriber share in Channel Systems (HK) was allotted and issued to Channel Micron (BVI). On 21 August 2019, one share in Channel Systems (HK) was allotted and issued to Channel Micron (BVI).

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

5. Corporate reorganisation

In order to rationalise our structure and prepare for the Listing, our Group has undertaken several restructuring steps, particulars of which are set out in “History and Development — Reorganisation”.

6. Repurchase of our own securities

As mentioned in “3. Resolutions in writing of our Shareholders passed on 3 September 2020” above, a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed.

(a) Provisions of the Listing Rules

The Listing Rules permit a company with a primary listing on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders’ approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution by shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchase by our Company may be made out of the profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the purchase, out of the profits of our Company or the share premium account of our Company Subject to the Cayman Companies Law, a repurchase of Shares may also be paid out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities shall disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of repurchases

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing Shares, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material and adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the mandate to such extent as would, in the circumstances, have a material and adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of 1,400,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme), could accordingly result in up to 140,000,000 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiry of the period within which we are required by any applicable laws or the Articles of Association to hold our next annual general meeting; or
- (iii) the date on which the repurchase mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Deed of Non-competition;
- (b) the deed of non-competition dated 3 September 2020 entered into among Douglas Frederick Bockmiller, Lauren Lindquist Bockmiller, Channel Systems Inc., Pacific Panels Inc., Peter Wayne Borris and our Company, particulars of which are set out in the section “Relationship with Controlling Shareholders — Corporate governance measures for resolving actual and/or potential conflicts of Interests”;
- (c) the Deed of Indemnity;
- (d) the deed of lock-up undertaking dated 3 September 2020 entered into among Douglas Frederick Bockmiller, Lauren Lindquist Bockmiller, Channel Systems Inc., Pacific Panels Inc., Peter Wayne Borris, Luah Kok Lam, Tee Chin Alk, Lim Huey Wen, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), particulars of which are set out in the section “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Undertakings by other Shareholders pursuant to a deed of lock-up undertaking”; and
- (e) the Hong Kong Underwriting Agreement.


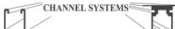
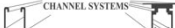





2. Material intellectual property rights

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademarks	Class	Registered owner	Place of registration	Registration number	Expiry date
1		42	Channel Systems (Shanghai)	PRC	18292982	27 February 2027
2		42	Channel Systems (Shanghai)	PRC	18292918	27 February 2027
3		37	Channel Systems (Shanghai)	PRC	18292830	27 November 2027
4		37	Channel Systems (Shanghai)	PRC	18292657	20 December 2026

No.	Trademarks	Class	Registered owner	Place of registration	Registration number	Expiry date
5	 捷能系統	35	Channel Systems (Shanghai)	PRC	18292597	27 February 2027
6	 CHANNEL SYSTEMS	35	Channel Systems (Shanghai)	PRC	18292575	13 December 2026
7	 CHANNEL SYSTEMS	19	Channel Systems (Shanghai)	PRC	18292459	27 February 2027
8	 捷能系統	16	Channel Systems (Shanghai)	PRC	18292293	27 February 2027
9	 CHANNEL SYSTEMS	16	Channel Systems (Shanghai)	PRC	18292212	20 December 2026
10	 CHANNEL SYSTEMS	11	Channel Systems (Shanghai)	PRC	18291769	27 February 2027
11	 捷能系統	6	Channel Systems (Shanghai)	PRC	18291647	27 February 2027
12	 CHANNEL SYSTEMS	6	Channel Systems (Asia)	Malaysia	06000656	16 January 2026

(b) Copyrights

As at the Latest Practicable Date, we had registered the following software copyrights which are material to our business:

No.	Description	Applicant	Certificate number	Application number	Filing date	Duration
1	Automatic Door Control System V1.0* (自動門控制系統V1.0)	Channel Systems (Shanghai)	1153984	2015SR266898	18 June 2013	50 years
2	Cleanroom Air Shower Control System V1.0* (潔淨室風淋房控制系統V1.0)	Channel Systems (Shanghai)	1154054	2015SR266968	21 May 2013	50 years
3	Automatic Door Interlock System V1.0* (自動門互鎖系統V1.0)	Channel Systems (Shanghai)	1155808	2015SR268722	13 November 2013	50 years

No.	Description	Applicant	Certificate number	Application number	Filing date	Duration
4	Sliding Door Automatic Control System V1.0* (平推門自動控制系統 V1.0)	Channel Systems (Shanghai)	1155813	2015SR268727	13 September 2013	50 years
5	Temperature and Humidity Sensor Control System V1.0* (溫度、濕度傳感控制系統 V1.0)	Channel Systems (Shanghai)	1154029	2015SR266943	18 December 2014	50 years
6	High Efficient Automatic Fan Filter Unit Filter Control System* (自帶風機高效過濾控制系統 V1.0)	Channel Systems (Shanghai)	1154012	2015SR266926	16 July 2014	50 years
7	Intelligent Lighting Control System V1.0* (智能照明控制系統 V1.0)	Channel Systems (Shanghai)	1153005	2015SR265919	7 November 2014	50 years
8	Cleanroom Airflow Control System V1.0* (潔淨室風量控制系統 V1.0)	Channel Systems (Shanghai)	1154025	2015SR266939	12 November 2015	50 years
9	Channel Automatic Single Sliding Door Noise-cancelling System V1.0* (捷能自動單開平推門降噪系統 V1.0)	Channel Systems (Shanghai)	3396004	2018SR1066909	17 May 2018	50 years
10	Channel Electric Sliding Door Access Management Platform V1.0* (捷能電動移門門禁管理平臺 V1.0)	Channel Systems (Shanghai)	3395487	2018SR1066392	21 June 2018	50 years

No.	Description	Applicant	Certificate number	Application number	Filing date	Duration
11	Channel Automatic Door Track Processing System V1.0* (捷能感應門軌道處理系統V1.0)	Channel Systems (Shanghai)	3395558	2018SR1066463	26 July 2018	50 years
12	Channel Blind Disk Energy Technology CNC Software V1.0* (捷能盲板能量技術數控軟體V1.0)	Channel Systems (Shanghai)	3388153	2018SR1059058	23 August 2018	50 years
13	Channel Automatic Door Power Supply Detection System V1.0* (捷能電動移門開關電源檢測系統V1.0)	Channel Systems (Shanghai)	3393474	2018SR1064379	25 October 2018	50 years
14	Channel Transparent Antistatic PC Window Software V1.0* (捷能5MM透明抗靜電PC板視窗管理軟體V1.0)	Channel Systems (Shanghai)	3386870	2018SR1057775	7 November 2018	50 years

(c) Domain Name

As of the Latest Practicable Date, we have registered the following domain names which are material to our business:

	Registration no.	Domain name	Registered owner	Registration date	Expiry date
1	D1A021413	channelsystemsasia.com.my	Channel Systems (Asia)	19 September 2001	19 September 2021
2	D1A344051	micron.com.my	Micron (M)	8 August 2017	8 August 2021

(d) Patents

As of the Latest Practicable Date, we have registered the following patents which are material to our business:

No.	Title of invention	Registered owner	Registration number	Place of registration	Date of Filing	Expiry date
1	Removable modular wall frame and wall system* (可拆卸模組化牆體框架及牆體系統)	Channel Systems (Shanghai)	ZL 2015 2 1111245.8	PRC	28 December 2015	27 December 2025
2	A type of cleanroom partition wall ceiling track unit* (一種基於潔淨室隔斷牆板的天軌裝置)	Channel Systems (Shanghai)	ZL 2015 2 1111257.0	PRC	28 December 2015	27 December 2025
3	A type of removable wall* (一種可拆分牆體)	Channel Systems (Shanghai)	ZL 2015 2 1111260.2	PRC	28 December 2015	27 December 2025
4	A type of cleanroom lighting installation structure* (一種無塵室用燈具安裝結構)	Channel Systems (Shanghai)	ZL 2015 2 1111271.0	PRC	28 December 2015	27 December 2025
5	A type of cleanroom support installation structure* (一種潔淨室用安裝支架結構)	Channel Systems (Shanghai)	ZL 2015 2 1111274.4	PRC	28 December 2015	27 December 2025
6	A type of concealable lighting* (一種隱藏式燈具)	Channel Systems (Shanghai)	ZL 2015 2 1113451.2	PRC	28 December 2015	27 December 2025
7	A type of cleanroom support structure* (一種無塵室用支架結構)	Channel Systems (Shanghai)	ZL 2015 2 1113455.0	PRC	28 December 2015	27 December 2025
8	Equipment fence structure* (機台圍欄結構)	Channel Systems (Shanghai)	ZL 2017 2 0844977.0	PRC	12 July 2017	11 July 2027

No.	Title of invention	Registered owner	Registration number	Place of registration	Date of Filing	Expiry date
9	Adjustable wall system* (可調試牆體系統)	Channel Systems (Shanghai)	ZL 2017 2 0007125.6	PRC	4 January 2017	3 January 2027
10	Cleanroom door* (潔淨無塵門)	Channel Systems (Shanghai)	ZL 2017 2 0006850.1	PRC	4 January 2017	3 January 2027
11	A type of concealable lighting system* (一種隱藏式燈具系統)	Channel Systems (Shanghai)	ZL 2017 2 0007131.1	PRC	4 January 2017	3 January 2027
12	A type of easy-to-install windowed door* (一種便於安裝的視窗門)	Channel Systems (Shanghai)	ZL 2017 2 0155323.7	PRC	21 February 2017	20 February 2027
13	Slat joint connection system* (龍骨支架連接系統)	Channel Systems (Shanghai)	ZL 2017 2 0386384.4	PRC	13 April 2017	12 April 2027
14	Slat base connection system* (龍骨下裝連接系統)	Channel Systems (Shanghai)	ZL 2017 2 0386385.9	PRC	13 April 2017	12 April 2027
15	Lightweight wall frame and easy-to-remove lightweight wall* (輕型牆體框架以及便於拆卸的輕型牆體)	Channel Systems (Shanghai)	ZL 2017 2 0155324.1	PRC	21 February 2017	20 February 2027
16	Window frame profiles, window frame, windows* (窗框型材、窗框以及視窗)	Channel Systems (Shanghai)	ZL 2017 2 0155378.8	PRC	21 February 2017	20 February 2027
17	A type of door with sealing component* (一種密封元件密封門底的門)	Channel Systems (Shanghai)	ZL 2017 2 0154657.2	PRC	21 February 2017	20 February 2027

No.	Title of invention	Registered owner	Registration number	Place of registration	Date of Filing	Expiry date
18	A hollow door seal* (一種空心密封條)	Channel Systems (Shanghai)	ZL 2017 2 0154660.4	PRC	21 February 2017	20 February 2027
19	A sealing component* (一種密封元件)	Channel Systems (Shanghai)	ZL 2017 2 0155167.4	PRC	21 February 2017	20 February 2027
20	A type of door with hollow door seal* (一種空心密封條密 封門邊的門)	Channel Systems (Shanghai)	ZL 2017 2 0154659.1	PRC	21 February 2017	20 February 2027
21	Lightweight slat* (輕型龍骨支架)	Channel Systems (Shanghai)	ZL 2017 2 0154701.X	PRC	21 February 2017	20 February 2027
22	A type of cleanroom corner wall system* (一種潔淨室用牆體 轉角系統)	Channel Systems (Shanghai)	ZL 2018 2 1317005.7	PRC	15 August 2018	14 August 2028
23	Air louver* (回風百葉)	Channel Systems (Shanghai)	ZL 2018 2 1048143.X	PRC	29 June 2018	28 June 2028
24	A system for wallboard processing* (一種 牆板加工系統)	Channel Systems (Shanghai)	ZL 2018 2 0110212.9	PRC	23 January 2018	22 January 2028
25	A type of non-rotating shockproof tensile structure for construction* (一種 建築工程用防扭轉 隔震抗拉結構)	Channel Systems (Shanghai)	ZL 2016 1 0084227.8	PRC	12 February 2016	11 February 2036
26	A heavy-duty door and window and wall system connection structure* (一種重型門窗與牆 體連接結構)	Channel Systems (Shanghai)	ZL 2018 2 1252079.7	PRC	3 August 2018	3 August 2028
27	A wall system* (一種貼牆系統)	Channel Systems (Shanghai)	ZL 2019 2 0788882.0	PRC	29 May 2019	29 May 2029

No.	Title of invention	Registered owner	Registration number	Place of registration	Date of Filing	Expiry date
28	A type of aluminium alloy profile cutting equipment (一種鋁合金型材切割設備)	Channel Systems (Shanghai)	ZL 2018 1 1017906.9	PRC	2 September 2018	2 September 2038
29	Preparation method of aluminium alloy profile (鋁合金型材的製備方法)	Channel Systems (Shanghai)	ZL 2019 1 0103164.X	PRC	1 February 2019	1 February 2039

As of the Latest Practicable Date, we have filed the following patent application which are pending, published and material to our business:

No.	Title of invention	Applicant	Place of application	Application number	Filing date
1	Wallboard processing system and methods* (一種牆板加工系統及加工方法)	Channel Systems (Shanghai)	PRC	201810064524.5	23 January 2018 ⁽¹⁾

Note:

(1) This patent application had been under substantive review by the patent administrative authority since 27 June 2018.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests and short position of our Directors and the chief executive in the shares, underlying shares or debentures of our Company and the associated corporations

Immediately following the completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the

Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange, will be as follows:

(i) *Interests in the Shares*

Name of Director/ chief executive	Capacity/ Nature of interest	Number of Shares⁽¹⁾	Approximate percentage of total number of issued shares
Mr. Ng	Beneficial owner	324,608,550	23.19%
Mr. Law	Beneficial owner	60,040,050	4.29%
Mr. Lim	Beneficial owner	36,877,050	2.63%
Ms. Yap	Beneficial owner	36,951,600	2.64%
Mr. Chin	Beneficial owner	37,061,850	2.65%

Note:

(1) "L" denotes a long position in the Shares.

Interests in associated corporation

Micron Cleanroom

Name of Director	Capacity/Nature of Interest	Number of shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner	1,000	0.01%
Ms. Yap	Beneficial owner	1,000	0.01%
Mr. Chin	Beneficial owner	1,000	0.01%

Save as disclosed above, none of the Directors or chief executive of our Company will, immediately following the completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, have any interests or short positions in the shares, underlying shares or debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange.

(b) Interests of Substantial Shareholders

Save as disclosed in “Substantial Shareholders”, so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares which may be issued pursuant to the exercise of the Share Option Scheme, no person will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

2. Directors’ service contracts and letters of appointment

Our Company entered into a service contract with each of our executive Directors on 3 September 2020. Each of the service contracts is for an initial fixed term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant service agreement). Pursuant to the relevant service contracts, the annual remuneration payable to our executive Directors by our Group (excluding any discretionary bonus) is as follows:

Executive Director	Remuneration <i>(RMB per annum)</i>
Mr. Ng	150,000
Mr. Law	100,000
Mr. Lim	100,000
Ms. Yap	100,000
Mr. Chin	100,000

Our Company entered into a letter of appointment with each of our independent non-executive Directors on 3 September 2020. Each of the letters of appointment is for an initial fixed term of one year commencing from 3 September 2020 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment). The annual remuneration payable to each of our independent non-executive Directors and under the relevant letters of appointment is as follows:

Independent non-executive Director	Remuneration <i>(RMB per annum)</i>
Ng Seng Leong	176,000
Martin Giles Manen	220,000
Wu Chun Sing	176,000

All of our Directors are covered by the directors’ and officers’ liability insurance purchased by our Company.

Save as disclosed above, none of our Directors has entered into, or has proposed to enter into, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' and senior management's remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for FY2017, FY2018 and FY2019 were approximately RMB5.7 million, RMB5.5 million and RMB7.6 million, respectively.

None of the Directors or any past directors of any member of our Group has been paid any sum of money for FY2017, FY2018 and FY2019 (a) as an inducement to join or upon joining our Company or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

Save as disclosed above, no other payments have been made or are payable, in respect of FY2017, FY2018 and FY2019 by any of member of our Group to any of our Directors.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for FY2017, FY2018 and FY2019.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, payable by our Group to and benefits in kind receivable by our Directors for FY2020 to be approximately RMB3.6 million.

The aggregate emoluments paid and benefits granted by our Group to our senior management (excluding our Directors) in respect of FY2017, FY2018 and FY2019 were approximately RMB2.0 million, RMB1.3 million and RMB0.7 million respectively.

4. Directors' competing interests

None of our Directors are interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

5. Disclaimers

- (a) Save as disclosed in this prospectus, none of the Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.
- (b) Save as disclosed in this prospectus, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole.

- (c) Save as disclosed in this prospectus, none of our Directors and their close associates, and so far as is known to the Directors, none of the Shareholders who are interested in more than 5% of the number of issued shares of our Company, has any interest in our Company's five largest customers or five largest suppliers.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted in compliance with Chapter 17 of the Listing Rules by the written resolutions of the Shareholder of our Company passed on 3 September 2020. The following summary does not form, nor is intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

(a) Summary of terms

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which any member of our Group holds an equity interest;
- (b) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of our Group or any Invested Entity;
- (d) any customer of any member of our Group or any Invested Entity;

- (e) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity;
- (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of the Shares

- (a) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (b) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other Share Option Scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue (i.e. not exceeding 140,000,000 Shares) on the Listing Date ("**General Scheme Limit**").
- (c) Subject to (a) above but without prejudice to (d) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares

in issue (i.e. not exceeding 140,000,000 Shares) as at the date of approval of the refreshed limit and, for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under the Listing Rules.

- (d) Subject to (a) above and without prejudice to (c) above, our Company may seek separate Shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in (c) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. Our Company must send a circular to the Shareholders, which must disclose the identity of the participant, the number and terms of the options to be granted (and options previously granted to such participant), the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note 1 to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to the Directors, chief executive or Substantial Shareholders of our Company or their respective associates

- (a) Any grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the proposed grantee of the options).

(b) Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(aa) representing in aggregate over 0.1% of the Shares in issue; and

(bb) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting (with such grantee, his associates and all core connected persons of our Company abstaining from voting in favour at such general meeting, except that such person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent by our Company to the Shareholders). Our Company must send a circular to the Shareholders containing the information required under the Listing Rules, within such time as may be specified in the Listing Rules, and where the Listing Rules shall so require, the vote at the shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting. Any change in the terms of options granted to a Substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of the Shares

(aa) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of its results for any year, half-year, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

Our Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

“Eligible Employee” means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his close associate has committed any breach of any contract entered into between the grantee or his close associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which our Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme or arrangement is formally proposed to Shareholders of our Company, a grantee shall, notwithstanding any other terms on which his options were granted, be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari

passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while any option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any such adjustments shall give a grantee the same proportion of the number of issued Shares as that to which he was entitled prior to such alteration; (bb) no such adjustment shall be made to the extent that a Share would be issued at less than its nominal value; (cc) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring such adjustment; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Subject to the terms of the Share Option Scheme, any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors, except where the grantee sells, transfers, charges, mortgages, encumbers or otherwise disposes of or creates any interest whatsoever in favour of any third party over or in relation to any option granted to him/her or enters into

any agreement so to do in contrary to the terms of the Share Option Scheme, in which case our Company shall be entitled to cancel any option granted to such grantee to the extent not already exercised.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (b) and (c) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreements so to do.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period in respect of such option;
- (b) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (c) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

- (a) The Share Option Scheme is conditional on the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (b) The terms and conditions of the Share Option Scheme relating to the matters set out in the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (c) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (d) The terms of the Share Option Scheme and any amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of the Listing Rules.
- (e) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Stock Exchange required

The Share Option Scheme is conditional on the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of options

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(v) **Compliance with the Listing Rules**

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Tax and Other Indemnities

Under the Deed of Indemnity, each of our Controlling Shareholders (the “**Indemnifier**”) has jointly and severally undertaken to our Company that he/she will indemnify and at all times keep our Group fully indemnified against any actions, claims, losses, liabilities, damages, costs, charges or expenses which may be made, suffered or incurred by any of them in respect of or arising directly or indirectly from any claims which are covered by the indemnities in relation to taxation, estate duty given under the Deed of Indemnity that has arisen before the Listing Date and all reasonable costs (including legal costs), charges, expenses, penalties and other liabilities which our Group may reasonably and properly incur in connection with:

- (a) the investigation, assessment or the contesting of any claim;
- (b) the settlement of any claim;
- (c) any legal proceedings in which our Group claims under or in respect of the Deed of Indemnity and in which judgment is given in favour of our Group; or
- (d) the enforcement of any such settlement or judgment in respect of any claim.

3. Sole Sponsor’s fees

The Sole Sponsor will receive a fee of HK\$6.0 million for acting as the sponsor for the Listing.

4. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in, or referred to in, this prospectus (the “**Experts**”) are set out below:

Name	Qualifications
Ballas Capital Limited	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants
Jingtian & Gongcheng	PRC legal advisers
Gan Partnership	Malaysia legal advisers
V&A LAW Villaraza & Angangco	Philippines legal advisers
CNPLaw LLP	Singapore legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant

5. Consents of experts

Each of the Experts has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be), all of which are dated the date of this prospectus and made for incorporation in this prospectus, and references to its name included in the form and context in which it respectively appears.

6. Interests of experts

None of the Experts has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

None of the Experts has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. No amount or benefit has been paid or given within the two years immediately preceding the date of this prospectus or intended to be paid or given to any promoter.

8. Preliminary expenses

The preliminary expenses incurred by our Company amounted to approximately USD2,054 and were paid by our Company.

9. Litigation

As at the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group member, that would have a material adverse effect on our results of operations or financial condition of our Group.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

11. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of any member of our Group has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group; and
 - (iii) no commission (except commission to sub-underwriters) has been paid or payable to any person for subscribing, agreeing to subscribe, or procuring or agreeing to procure subscription, for any shares in or debentures of our Company.
- (b) Save as disclosed in this prospectus, no share or loan capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option.
- (c) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued.
- (d) Our Company has no outstanding convertible debt securities or debentures.
- (e) There is no arrangement under which future dividends are waived or agreed to be waived.
- (f) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in “E. Other Information — 5. Consents of experts” in Appendix V and copies of the material contracts referred to in “B. Further Information about Our Business — 1. Material Contracts” in Appendix V.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Deacons at 5/F, Alexandra House, 18 Chater Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles;
- (b) the accountants’ report of our Group issued by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I;
- (c) the audited financial statements of our Company and where applicable, companies now comprising our Group, for the three years ended 31 December 2019 and the three months ended 31 March 2020;
- (d) the letter prepared by Grant Thornton Hong Kong Limited on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II;
- (e) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV;
- (f) the Cayman Companies Law;
- (g) the legal opinions prepared by our PRC legal advisers, Jingtian & Gongcheng, in respect of the applicable laws and regulations of our operations and certain matters and properties of our Group in the PRC;
- (h) the legal opinion prepared by our Malaysia legal advisers, Gan Partnership, in respect of the applicable laws and regulations of our operations and certain matters of our Group in Malaysia;
- (i) the legal opinion prepared by our Philippines legal advisers, V&A LAW Villaraza & Angangco, in respect of the applicable laws and regulations of our operations and certain matters of our Group in the Philippines;
- (j) the legal opinion prepared by our Singapore legal advisers, CNPLaw LLP, in respect of the applicable laws and regulations of our operations and certain matters of our Group in Singapore;
- (k) the F&S Report;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (l) the letter and valuation certificate relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which are set out in Appendix III;
- (m) the material contracts referred to in “B. Further Information about Our Business — 1. Material contracts” in Appendix V to this prospectus;
- (n) the service contracts and letters of appointment referred to in “C. Further Information about Our Directors, Chief Executive and Substantial Shareholders — 2. Directors’ service contracts and letters of appointment” in Appendix V to this prospectus;
- (o) the written consents referred to in “E. Other Information — 5. Consents of experts” in Appendix V; and
- (p) the rules of the Share Option Scheme.

Channel Micron Holdings Company Limited

捷心隆控股有限公司

