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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)

CONTINUING CONNECTED TRANSACTIONS: NEW FRAMEWORK SALES AGREEMENT

Financial Adviser to Channel Micron Holdings Company Limited

BALLAS
C A P I T A L

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Crescendo Capital Limited

FRAMEWORK SALES AGREEMENT

Reference is made to the “Continuing Connected Transactions” section of the Prospectus of the Company dated 22 September 2020. As disclosed in the Prospectus, on 3 September 2020, the Company, Sum System and Sum Technic had entered into the 2020 Framework Sales Agreement with the term from the date of Listing to 31 December 2022. Pursuant to the 2020 Framework Sales Agreement, the Group agreed to sell, and Sum System and Sum Technic agreed to purchase, cleanroom wall and ceiling systems and cleanroom equipment.

On 21 March 2022 (after trading hours), the Company entered into the New Framework Sales Agreement with the Excluded Group to (i) include Micronaire as one of the parties to the agreement; (ii) renew the term of the 2020 Framework Sales Agreement up to 31 December 2024; and (iii) revise the original annual cap for the year ending 31 December 2022.

LISTING RULES IMPLICATION

Mr. Ng, one of the Controlling Shareholders, owns 45.3% of Sum System and 51.0% of Sum Technic. Accordingly, each of Sum System and Sum Technic is an associate of Mr. Ng and a connected person of the Company under Chapter 14A of the Listing Rules.

As Mr. Ng, Mr. Chin, Mr. Chia, Mr. Law, Ms. Yap and Mr. Lim, are the Controlling Shareholders and collectively hold 60% of Micronaire, the Directors consider it appropriate to treat Micronaire as a connected person of the Company and to comply with Chapter 14A of the Listing Rules accordingly.

Therefore, the New Framework Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As the applicable percentage ratios as set out in Rule 14.07 of the Listing Rules for the Annual Caps in relation to the New Framework Sales Agreement are expected to be higher than 5%, the New Framework Sales Agreement and the Annual Caps in relation thereto are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An independent board committee of the Company, comprising all the independent non-executive Directors, has been appointed to advise the Independent Shareholders on, among other things, whether or not the New Framework Sales Agreement and the Annual Caps are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned and whether the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group. Crescendo Capital Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders regarding the New Framework Sales Agreement and the Annual Caps.

A circular containing, inter alia, (a) further information on the New Framework Sales Agreement and the Annual Caps in relation thereto; (b) the letter of advice from the independent financial adviser to the independent board committee of the Company and Independent Shareholders; (c) the recommendation from the independent board committee of the Company and (d) a notice of the EGM will be dispatched to the Shareholders on or before 12 April 2022 in accordance with the Listing Rules.

FRAMEWORK SALES AGREEMENT

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Major terms of the New Framework Sales Agreement are as follows:

Date	21 March 2022
Parties	the Company, as supplier the Excluded Group, as purchaser
Effective period	From the Effective Date to 31 December 2024
Subject Matter	The Group would manufacture and supply cleanroom wall and ceiling systems and equipment to the Excluded Group
Pricing basis	<p>The prices offered to the Excluded Group for the supply of cleanroom wall and ceiling systems and equipment by the Group shall be determined taking into account the relevant costs and prices offered to Independent Third Party customers.</p> <p>The internal sales department of the Group shall price the products with its costs as a benchmark, upon which the Group shall determine the final prices for sale to the Excluded Group by comparing against quotations or prices offered by the Group to at least two Independent Third Party customers.</p> <p>The price and the terms of the sales of products shall be agreed after arm's length negotiation between the Group and the Excluded Group based on normal commercial terms, and in any event shall be no less favourable to the Group than terms offered by the Group to Independent Third Parties of the Group.</p>
Annual Caps	FY2022: RM13.7 million (equivalent to approximately RMB21.6 million) FY2023: RM13.1 million (equivalent to approximately RMB20.7 million) FY2024: RM14.3 million (equivalent to approximately RMB22.6 million)

Historical transaction amount pursuant to the 2020 Framework Sales Agreement	FY2020: RMB0.3 million
	FY2021: RMB0.2 million

The New Framework Sales Agreement shall replace the 2020 Framework Sales Agreement upon it becoming effective.

Basis of determination of Annual Caps

The Annual Cap for FY2022 is determined taking into account the quotations submitted by the Group to Sum Technic for (i) a semiconductor manufacturing facility in Johor Baru, Malaysia. To the best of the Director’s knowledge, Sum Technic has secured this project to act as the contractor, and the project has already commenced; and (ii) a semiconductor manufacturing facility in Perak, Malaysia (the “**Perak Project**”). To the best of the Director’s knowledge, Sum Technic was appointed as the contractor for existing facilities of the Perak Project and has already submitted tender for the new facility. The likelihood of Sum Technic securing the Perak Project is high as it completed the existing facilities of the Perak Project. The Perak Project is expected to commence in 2022 and complete in different phases until 2024. The Annual Cap for FY2022 includes the revenue from the Perak Project expected to be generated in FY2022.

The Annual Cap for FY2023 is determined taking into account (i) the revenue from the Perak Project expected to be generated in FY2023; (ii) the quotation submitted by the Group to Sum Technic for a semiconductor manufacturing facility in Ipoh, Malaysia (the “**Ipoh Project**”). To the best of the Director’s knowledge, Sum Technic was appointed as the contractor for existing facilities of the Ipoh Project and is expected to be invited for tender for the new facility in 2023. The likelihood of Sum Technic securing the Ipoh Project is high as it completed the existing facilities of the Ipoh Project; and (iii) the estimated contract size based on the quotation submitted by the Group to an Independent Third Party regarding a semiconductor manufacturing facility in Melaka, Malaysia. To the best of the Director’s knowledge, the commencement of such project was put on hold and would resume in FY2023 and Sum Technic is expected to be invited to the tender. The likelihood of Sum Technic securing the project is moderately high as it has been engaged by the facility owner for other projects.

The Annual Cap for FY2024 is determined taking into account the revenue from the Perak Project expected to be generated in FY2024 and a buffer of RM1.0 million to cater for additional orders or projects.

Condition precedent

The New Framework Sales Agreement is conditional upon the Independent Shareholders approving the New Framework Sales Agreement and the transactions contemplated thereunder and the Annual Caps.

INFORMATION OF PARTIES

The Group is principally engaged in the provision of cleanroom wall and ceiling systems and cleanroom equipment in the PRC and Malaysia.

The details of the members of the Excluded Group are set out below:

Company	Place of incorporation	Shareholders	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%)	Solar Panel Business
Sum Technic	Malaysia	1. Mr. Ng (51.0%) 2. Mr. Chin (21.0%) 3. Mr. Lee Thiam Hing, an Independent Third Party (20.0%) 4. Mr. Law (5.0%) 5. Ms. Yap (3.0%)	Construction and Engineering Business
Micronaire	Malaysia	1. Mr. Ng (23.0%) 2. Mr. Cheng Kai Sean, an Independent Third Party (20.0%) 3. Mr. Ang Yen Kee, an Independent Third Party (15.0%) 4. Mr. Chin (15.0%) 5. Mr. Chia (7.0%) 6. Mr. Law (7.0%) 7. Mr. Lee Thiam Hing, an Independent Third Party (5.0%) 8. Ms. Yap (5.0%) 9. Mr. Lim (3.0%)	Air Conditioning Business

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FRAMEWORK SALES AGREEMENT

Along with the growth of business of the Excluded Group, the demand from the Excluded Group for cleanroom products provided by the Group will increase which in turn will contribute to the Group's sales and profitability. Given that (i) the anticipated total transaction amount between the Group and the Excluded Group for the year ending 31 December 2022 is expected to exceed the previously set annual cap; (ii) in addition to Sum System and Sum Technic (being the parties to the 2020 Framework Sales Agreement), it is expected that Micronaire will also purchase cleanroom products from the Group; and (iii) the relevant continuing connected transactions is expected to continue after 31 December 2022, which is the expiry date of the 2020 Framework Sales Agreement, the Group enters into the New Framework Sales Agreement.

INTERNAL CONTROL

In order to ensure the terms of the New Framework Sales Agreement are on normal commercial terms and fair and reasonable to the Company and the Shareholders and are no more favourable than those offered by the Group to the Independent Third Parties, the Company has formulated the following internal control policies and adopted the following internal control measures:

- (i) the finance department of the Company will closely monitor the transactions under the New Framework Sales Agreement to ensure that the transactions amount will not exceed the Annual Caps for the New Framework Sales Agreement;
- (ii) the internal sales department of the Group shall price the products with its costs as a benchmark, upon which the Group shall determine the final prices for sale to the Excluded Group by comparing against quotations or prices offered by the Group to at least two Independent Third Party customers;
- (iii) the finance department of the Company will conduct monthly random checks to review and assess whether the transactions contemplated under the New Framework Sales Agreement are conducted on normal commercial terms, in accordance with the terms set out in the New Framework Sales Agreement and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole. In particular, the finance department will check whether the pricing procedures as set out in paragraph (ii) above have been properly followed;
- (iv) the Company's external auditor will conduct an annual review of the transactions entered into under the New Framework Sales Agreement to ensure that the transactions amount is within the Annual Caps and the transactions is in accordance with the terms set out in the New Framework Sales Agreement; and
- (v) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the New Framework Sales Agreement to ensure that the Company has complied with its internal approval process and the relevant requirements under the Listing Rules.

In view of the pricing policy and internal control measures above, the Directors are of the view that appropriate measures are in place to ensure that the transactions contemplated under the New Framework Sales Agreement will be conducted on normal commercial terms and not prejudicial to the interest of the Company and its minority Shareholders.

LISTING RULES IMPLICATIONS

Mr. Ng, one of the Controlling Shareholders, owns 45.3% of Sum System and 51.0% of Sum Technic. Accordingly, each of Sum System and Sum Technic is an associate of Mr. Ng and a connected person of the Company under Chapter 14A of the Listing Rules.

As Mr. Ng, Mr. Chin, Mr. Chia, Mr. Law, Ms. Yap and Mr. Lim, are the Controlling Shareholders and collectively hold 60% of Micronaire, the Directors consider it appropriate to treat Micronaire as a connected person of the Company and to comply with Chapter 14A of the Listing Rules accordingly.

Therefore, the New Framework Sales Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As the applicable percentage ratios as set out in Rule 14.07 of the Listing Rules for the Annual Caps in relation to the New Framework Sales Agreement are expected to be higher than 5%, the New Framework Sales Agreement and the Annual Caps in relation thereto are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

As all executive Directors (being Mr. Ng, Mr. Chin, Mr. Law, Mr. Lim and Ms. Yap) have shareholding interests in the Excluded Group, they are considered to have a material interest in the New Framework Sales Agreement. Accordingly, none of them will vote nor be counted in the quorum at any Board meeting to be held for the approval of the New Framework Sales Agreement. As a result, the Board will defer its views on the New Framework Sales Agreement to the independent board committee, comprising all the independent non-executive Directors, which has been formed, and which will, after receiving the advice of the independent financial adviser, give its views on whether the terms of the New Framework Sales Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole and as to how to vote on the relevant proposed resolutions at the EGM. The Company expects the views of the Independent Board Committee on the New Framework Sales Agreement to be published in the circular.

Crescendo Capital Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders regarding the New Framework Sales Agreement and the Annual Caps and whether the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group.

A circular containing, inter alia, (a) further information on the New Framework Sales Agreement and the Annual Caps in relation thereto; (b) the letter of advice from the independent financial adviser to the independent board committee of the Company and Independent Shareholders; (c) the recommendation from the independent board committee of the Company and (d) a notice of the EGM will be dispatched to the Shareholders on or before 12 April 2022 in accordance with the Listing Rules.

DEFINITIONS

“Air Conditioning Business”	manufacturing, trading and installation of air-conditioning equipment
“Annual Caps”	the proposed maximum annual aggregate transaction values in respect of transaction contemplated under the New Framework Sales Agreement for the three years ending 31 December 2024
“Board”	the board of Directors
“Company”	Channel Micron Holdings Company Limited (捷心隆控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Construction Engineering Business”	mechanical and electrical systems main contractor (including air conditioning) for high-tech factories including but not limited to cleanroom
“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, Mr. Chang Chin Sia, Mr. Ng Boon Hock, Ms. Yap, Mr. Chin, Mr. Loh Wei Loon and Mr. Phang Chee Kin, who are regarded as a group of controlling shareholders of the Company acting in concert by virtue of the acting in concert confirmation dated 13 August 2019
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the entering into of the New Framework Sales Agreement, the transactions contemplated hereunder and the Annual Caps, are approved by the independent shareholders of the Company at the EGM
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of, if thought fit, to approve the New Framework Sales Agreement and the transactions contemplated thereunder and the Annual Caps by the Independent Shareholders
“Excluded Group”	Micronaire, Sum System and Sum Technic
“FY”	financial year of the Company ended or ending 31 December
“Group”	the Company and its subsidiaries

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	Shareholders other than Controlling Shareholders and their respective associates
“Independent Third Party(ies)”	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of the Company within the meaning ascribed under the Listing Rules. “independent” and “third party” shall be construed accordingly
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Micronaire”	Micronaire Global Sdn. Bhd., a company incorporated in Malaysia which is primarily engaged in the Air Conditioning Business
“Mr. Chia”	Mr. Francis Chia Mong Tet, one of the Controlling Shareholders
“Mr. Chin”	Mr. Chin Sze Kee, an executive Director and one of the Controlling Shareholders
“Mr. Law”	Mr. Law Eng Hock, an executive Director and one of the Controlling Shareholders
“Mr. Lim”	Mr. Lim Kai Seng, an executive Director and one of the Controlling Shareholders
“Mr. Ng”	Mr. Ng Yew Sum, an executive Director and one of the Controlling Shareholders
“Ms. Yap”	Ms. Yap Chui Fan, an executive Director and one of the Controlling Shareholders
“New Framework Sales Agreement”	The agreement dated 21 March 2022 between the Company and the Excluded Group in relation to the design, manufacture and supply of cleanroom wall and ceiling systems and equipment by the Group to the Excluded Group from the Effective Date to 31 December 2024
“PRC”	the People’s Republic of China, excluding for the purposes of this announcement only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RM”	Malaysian Ringgit, the lawful currency of Malaysia

“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Solar Panel Business”	Mechanical and engineering services for renewable energy systems
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sum System”	Sum System Solution Sdn. Bhd., a company incorporated in Malaysia which is primarily engaged in the Solar Panel Business
“Sum Technic”	Sum Technic Sdn. Bhd., a company incorporated in Malaysia which is primarily engaged in the Construction Engineering Business, acting as main contractors for high-tech factories but not limited to cleanroom
“2020 Framework Sales Agreement”	The framework sales agreement dated 3 September 2020 between the Company, Sum System and Sum Technic in relation to the design, manufacture and supply of cleanroom wall and ceiling systems and equipment by the Group to Sum System and Sum Technic from the date of Listing to 31 December 2022
“%”	per cent

For reference only, an exchange rate of RM1.00 to RMB1.58 has been used for the conversion of RM into RMB in this announcement.

By Order of the Board
Channel Micron Holdings Company Limited
Ng Yew Sum
Chairman and Executive Director

Hong Kong, 21 March 2022

As at the date of this announcement, the board of directors of the Company comprises: (1) Mr. NG Yew Sum (Chairman), Mr. CHIN Sze Kee, Mr. LAW Eng Hock, Mr. LIM Kai Seng and Ms. YAP Chui Fan as the executive Directors; and (2) Mr. NG Seng Leong, Mr. Martin Giles MANEN and Mr. WU Chun Sing as the independent non-executive Directors.