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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

The financial highlights of the Group during the six months ended 30 June 2022 (“**1H2022**”) together with the comparative figures for the six months ended 30 June 2021 (“**1H2021**”) are set out as follows:

	For the six months ended 30 June		Change
	2022	2021	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	254,469	99,244	156.4%
Gross profit	76,460	32,974	131.9%
Profit for the period	39,539	9,687	308.2%
	<i>RMB cents</i>	<i>RMB cents</i>	
Earnings per share			
Basic and diluted	2.82	0.69	
Gross profit margin	30.0%	33.2%	
Net profit margin	15.5%	9.8%	

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Channel Micron Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	254,469	99,244
Cost of sales		<u>(178,009)</u>	<u>(66,270)</u>
Gross profit		76,460	32,974
Other income	5	1,917	2,198
Other gains and losses	6	950	(308)
Selling and distribution costs		(5,365)	(4,253)
Administrative and other operating expenses		(16,830)	(13,056)
Research and development expenses		(3,768)	(2,868)
Finance costs	7	(1,233)	(332)
Profit before income tax	8	52,131	14,355
Income tax expense	9	(12,592)	(4,668)
Profit for the period		<u>39,539</u>	<u>9,687</u>
Other comprehensive income/(expense)			
<i>Item that will be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>617</u>	<u>(5,186)</u>
Other comprehensive income/(expense) for the period, net of tax		<u>617</u>	<u>(5,186)</u>
Total comprehensive income for the period		<u>40,156</u>	<u>4,501</u>

	Six months ended 30 June	
	2022	2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit for the period attributable to:		
Equity holders of the Company	39,491	9,617
Non-controlling interests	48	70
	<u>39,539</u>	<u>9,687</u>
Total comprehensive income		
for the period attributable to:		
Equity holders of the Company	40,108	4,431
Non-controlling interests	48	70
	<u>40,156</u>	<u>4,501</u>
	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share for profit attributable		
to equity holders of the Company		
Basic and diluted	<i>11</i> 2.82	0.69

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	73,080	73,455
Deferred tax assets		6,590	6,481
		79,670	79,936
Current assets			
Inventories		39,405	32,012
Trade and other receivables	13	107,230	94,652
Contract assets	14	137,567	74,253
Amounts due from related parties		5,965	190
Income tax recoverable		88	717
Pledged bank deposits		2,725	1,624
Cash and cash equivalents		119,600	110,536
		412,580	313,984
Current liabilities			
Trade and other payables	15	120,221	79,569
Contract liabilities	14	25,944	14,923
Amounts due to related parties		183	64
Lease liabilities		1,444	1,985
Borrowings	16	68,524	62,247
Income tax payable		13,996	6,121
		230,312	164,909
Net current assets		182,268	149,075
Total assets less current liabilities		261,938	229,011
Non-current liabilities			
Lease liabilities		1,238	765
Deferred tax liabilities		2,449	2,389
		3,687	3,154
Net assets		258,251	225,857
EQUITY			
Share capital	17	12,152	12,152
Reserves		245,434	213,088
Equity attributable to equity holders of the Company		257,586	225,240
Non-controlling interests		665	617
Total equity		258,251	225,857

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. GENERAL INFORMATION

Channel Micron Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) was incorporated as an exempted company with limited liability in the Cayman Islands. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 October 2020.

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in the provision of cleanroom wall and ceiling systems and cleanroom equipment in the People’s Republic of China (the “**PRC**”) and Southeast Asia.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The condensed consolidated interim financial statements are presented in Renminbi (“**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.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021. The accounting policies and critical accounting judgments and estimates used in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new and amended Hong Kong Financial Reporting Standards (“**HKFRSs**”) as disclosed in note 3.

3. ADOPTION OF NEW AND AMENDED HKFRSs

Amended HKFRSs that are effective for annual period beginning on 1 January 2022

At the current period, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which is relevant to the Group's operations and effective for the Group's condensed consolidated interim financial statements for annual period beginning on 1 January 2022.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRS standards 2018–2020
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination

The adoption of these amended HKFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

Issued but not yet effective HKFRSs

At the date of authorisation of these condensed consolidated interim financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts and related amendments ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The new and amended HKFRSs are not expected to have a material impact on the Group's condensed consolidated interim financial statements.

4. REVENUE AND SEGMENT INFORMATION

4.1 Revenue

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:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Timing of revenue recognised over time		
— Cleanroom projects	152,120	78,115
Timing of revenue recognised at a point in time		
— Sales of goods	102,349	21,129
	<u>254,469</u>	<u>99,244</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 chief operating decision maker (i.e. executive directors of the Company) for the purpose of resources allocation and assessment of segment performance for the six months ended 30 June 2022 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>
Six months ended 30 June 2022 (unaudited)				
Reportable segment revenue	236,033	5,730	12,706	254,469
Reportable segment cost of sales	<u>(165,504)</u>	<u>(5,274)</u>	<u>(7,231)</u>	<u>(178,009)</u>
Reportable segment gross profit	<u>70,529</u>	<u>456</u>	<u>5,475</u>	<u>76,460</u>
Six months ended 30 June 2021 (unaudited)				
Reportable segment revenue	88,257	2,407	8,580	99,244
Reportable segment cost of sales	<u>(57,254)</u>	<u>(2,197)</u>	<u>(6,819)</u>	<u>(66,270)</u>
Reportable segment gross profit	<u>31,003</u>	<u>210</u>	<u>1,761</u>	<u>32,974</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.

	Six months ended 30 June	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(unaudited)
Revenue from external customers		
— The PRC (excluding Hong Kong)	154,777	57,407
— Malaysia	43,214	23,457
— Philippines	24,928	3,508
— Singapore	14,629	13,618
— United States	9,178	—
— Others	<u>7,743</u>	<u>1,254</u>
	<u>254,469</u>	<u>99,244</u>

	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
Specified non-current assets		
— The PRC (excluding Hong Kong)	2,575	3,509
— Malaysia	70,413	69,847
— Others	92	99
	<u>73,080</u>	<u>73,455</u>

5. OTHER INCOME

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
Bank interest income	264	162
Government grants (<i>note</i>)	–	1,758
Insurance income	1,028	–
Sundry income	625	278
	<u>1,917</u>	<u>2,198</u>

Note: Subsidies have been received from the provincial government in the PRC for subsidizing the Group's operations. There were no unfulfilled conditions or contingencies relating to these subsidies.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
Exchange gains/(losses), net	791	(308)
Gain on disposal of property, plant and equipment	159	–
	<u>950</u>	<u>(308)</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest charges on:		
— bank loans	1,169	278
— lease liabilities	64	54
	1,233	332

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Auditors' remuneration	169	192
Cost of inventories recognised as an expense	144,090	47,905
Depreciation of property, plant and equipment on:		
— owned assets	614	574
— right-of-use assets	1,170	1,046
(Reversal of)/Provision for credit losses of trade receivables, net	(2,114)	126
Provision for credit losses of contract assets, net	6,550	452
Gain on disposal of property, plant and equipment	(159)	—
Research and development expenses (including staff costs)	3,768	2,868
Employee benefit expenses (including directors' emoluments)	14,697	12,927
Short-term leases charges	667	441
Exchange (gains)/losses, net	(791)	308

9. 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% (six months ended 30 June 2021: 24%) on the estimated assessable profit for the six months ended 30 June 2022 arising from Malaysia.

Philippines Income Tax

Philippines Income Tax in respect of the Group's operations in Philippines has been provided at the rate of 25% (six months ended 30 June 2021: 25%) on the estimated assessable profit. 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 1% (six months ended 30 June 2021: 1%) minimum corporate income tax on gross income or tax equivalent to 25% (six months ended 30 June 2021: 25%) 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% (six months ended 30 June 2021: 25%) on the estimated assessable profit for the six months ended 30 June 2022 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, it entitled to a preferential income tax rate of 15% (six months ended 30 June 2021: 15%) on its estimated assessable profit for the six months ended 30 June 2022.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, one of the Group's PRC subsidiaries entitled to a preferential income tax rate of 10% (six months ended 30 June 2021: 10%) on its estimated assessable profit for the six months ended 30 June 2022.

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 200% (six months ended 30 June 2021: 200%) for the six months ended 30 June 2022 of its research and development expenses so incurred as tax deductible expenses when determining its assessable profit for the six months ended 30 June 2022 (“**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 six months ended 30 June 2022 and 2021.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
The PRC EIT		
— Current period	5,143	1,638
Malaysian Income Tax		
— Current period	7,353	3,774
Philippines Income Tax		
— Current period	156	2
	<u>12,652</u>	<u>5,414</u>
Deferred tax		
— Current period	(60)	(746)
Income tax expense	<u>12,592</u>	<u>4,668</u>

10. DIVIDENDS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividends to equity holders	<u>7,762</u>	<u>4,203</u>

Pursuant to a written resolution passed by the directors of the Company on 30 March 2021, a final dividend of HK0.36 cents per share in respect of the year ended 31 December 2020 has been declared and paid.

Pursuant to a written resolution passed by the directors of the Company on 30 March 2022, a final dividend of HK0.67 cents per share in respect of the year ended 31 December 2021 has been declared and paid.

The interim dividend of HK0.71 cents per share has been proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits for the six months ended 30 June 2022.

11. EARNINGS PER SHARE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to equity holders of the Company for the purposes of basic earnings per share	<u>39,491</u>	<u>9,617</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>1,400,000</u>	<u>1,400,000</u>

Diluted earnings per share for both periods are the same as basic earnings per share as there were no potential ordinary shares in issue during both periods.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the additions of property, plant and equipment including furniture, fittings and equipment, leasehold improvement, motor vehicles and plant and machinery was approximately RMB545,000 (six months ended 30 June 2021: RMB363,000, including furniture, fittings and equipment and plant and machinery). The total additions to right-of-use assets included in property, plant and equipment was approximately RMB1,342,000 during the six months ended 30 June 2022 (six months ended 30 June 2021: RMBNil).

During the six months ended 30 June 2022, items of property, plant and equipment including furniture, fittings and equipment and motor vehicles with total carrying amount of approximately RMB159,000 were disposed of (six months ended 30 June 2021: RMB Nil), and furniture, fittings and equipment with total carrying amount of RMB29,000 were written off (six months ended 30 June 2021: RMBNil).

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Trade receivables	84,776	81,609
Less: expected credit losses (“ECL”) allowance	<u>(6,011)</u>	<u>(8,154)</u>
	78,765	73,455
Bill receivables	<u>–</u>	<u>4,102</u>
	<u>78,765</u>	<u>77,557</u>
Other receivables		
— Prepayments	22,581	6,960
— Other tax receivables	3,374	7,769
— Other receivables	1,178	1,510
— Rental and other deposits	<u>1,364</u>	<u>888</u>
	28,497	17,127
Less: ECL allowance	<u>(32)</u>	<u>(32)</u>
	<u>28,465</u>	<u>17,095</u>
	<u>107,230</u>	<u>94,652</u>

All bill receivables are due within one year.

The credit period is generally for a period of 0 to 90 days (31 December 2021: 0 to 90 days). Based on the invoice dates, the ageing analysis of trade receivables, net of ECL allowance, was as follows:

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
0–90 days	65,787	53,588
91–180 days	8,220	11,735
181–365 days	3,572	4,282
Over 365 days	<u>1,186</u>	<u>3,850</u>
	<u>78,765</u>	<u>73,455</u>

The movement in the ECL allowance of trade receivables is as follows:

	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
At the beginning of the period/year	8,154	6,287
Net ECL allowance (reversed)/recognised during the period/year	(2,114)	2,140
Exchange realignment	(29)	(273)
	<u>6,011</u>	<u>8,154</u>

The movement in the ECL allowance of other receivables is as follows:

	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
At the beginning and end of the period/year	<u>32</u>	<u>32</u>

14. CONTRACT ASSETS AND CONTRACT LIABILITIES

14.1 Contract assets

	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
Contract assets arising from		
— Cleanroom projects	151,182	76,838
— Sales of goods	—	4,480
Less: ECL allowance	(13,615)	(7,065)
	<u>137,567</u>	<u>74,253</u>

The movement in the ECL allowance of contract assets is as follows:

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
At the beginning of the period/year	7,065	2,758
Net ECL allowance recognised during the period/year	6,550	4,313
Exchange realignment	—	(6)
	<u>13,615</u>	<u>7,065</u>

14.2 Contract liabilities

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Contract liabilities arising from		
— Cleanroom projects from billings in advance of performance	18,721	5,197
— Receiving deposits of manufacturing orders	7,223	9,726
	<u>25,944</u>	<u>14,923</u>

15. TRADE AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Trade payables	106,765	63,971
Bill payables	—	2,486
	<u>106,765</u>	<u>66,457</u>
Other payables		
— Accrued expenses	5,820	7,779
— Other tax payables	5,932	581
— Other payables	1,704	4,752
	<u>13,456</u>	<u>13,112</u>
	<u>120,221</u>	<u>79,569</u>

The Group was granted by its supplier credit periods ranging from 30 to 90 days (31 December 2021: 30 to 90 days). Based on the invoice dates, the ageing analysis of trade payables were as follows:

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
0–90 days	87,274	55,729
91–180 days	15,507	594
181–365 days	868	4,096
Over 365 days	3,116	3,552
	106,765	63,971

16. BORROWINGS

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Bank overdrafts	–	277
Bank loans, wholly repayable within one year or on demand		
— Secured	45,524	46,970
— Unsecured	23,000	15,000
	68,524	62,247

As at 30 June 2022, the bank loans bear effective interest rates of range from 3.17% to 4.35% (31 December 2021: 2.30% to 4.60%) per annum.

As at 30 June 2022, the Group's bank loans of RMB45,524,000 (31 December 2021: RMB46,970,000) were secured by the legal charges over the Group's freehold land and building.

17. SHARE CAPITAL

	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	<u>86,773</u>	<u>86,773</u>
Issued and fully paid: 1,400,000,000 ordinary shares of HK\$0.01 each	<u>12,152</u>	<u>12,152</u>

18. RELATED PARTY TRANSACTIONS

Other than as disclosed in elsewhere to the condensed consolidated interim financial statements, the Group entered into the following material related party transactions during the period.

18.1 Transactions with related parties

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sales of goods to related companies		
— Sum Technic Sdn. Bhd. (<i>note a</i>)	5,945	16
— Micronaire Global Sdn. Bhd. (<i>note b</i>)	110	2
	<u>6,055</u>	<u>18</u>

Notes:

- (a) Sum Technic is a related company controlled by Ng Yew Sum, Chin Sze Kee and Law Eng Hock, 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 and Lim Kai Seng, the controlling shareholders of the Company.

18.2 Key management personnel remuneration

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Salaries, allowances and other benefits	3,669	2,385
Retirement scheme contributions	321	194
	<u>3,990</u>	<u>2,579</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

For the six months ended 30 June 2022 (“**1H2022**”), the Group’s revenue and profitability soared to record high. The Group recorded a remarkable growth in revenue and net profit of 156.4% and 308.2% respectively as compared to the same period last year (“**1H2021**”), due to the surge in market demand for the Group’s cleanroom products and the increase in profit due to the greater economies of scale. The significant increase in market demand for the Group’s cleanroom products, which are mostly applied in cleanrooms for semiconductor plants, is driven by the ever-increasing investment in semiconductor industry in response to the global semiconductor shortage.

To cater for the growing demand of its products and capture market opportunities, the Group endeavors to expand its production capacity in both Malaysia and the PRC. For Malaysia, the Group acquired a parcel of land with a site area of approximately 16,056 square metres during the year ended 31 December 2021 for the construction of the new production facility (the “**New Production Facility**”). As at the date of this announcement, the Group has obtained verbal clearance from the government officials and still pending the issuance of official approval letter from the government for the construction plan of the New Production Facility. The Group’s production capacity is expected to increase by approximately 80% for cleanroom wall and ceiling systems and by approximately 62% for cleanroom equipment when the New Production Facility is in full operation, which is expected to be around the fourth quarter of 2023. In the PRC, during 1H2022, the lockdown measures in Shanghai had delayed the Group’s search of suitable premises to open a second factory in the PRC. Therefore, as at the date of this announcement, the Group is still actively looking for suitable premises in the PRC and extended the rental period of the temporary factory for one more year until August 2023 as an interim measure.

In terms of the impact of COVID-19 during 1H2022, the Group’s production and projects in Shanghai, the PRC were temporarily suspended for around two months from late March 2022 to end of May 2022 due to the lockdown restrictions. During 1H2022, the Group had two confirmed projects in Shanghai, the PRC and their completion dates delayed from July 2022 and September 2022 to October 2022 and November 2022 respectively. The Group estimates that around RMB8.6 million of the revenue from these two projects were postponed from 1H2022 to the second half of 2022 as a result of the delay. For the Group’s projects in other regions of the PRC, the Group managed to catch up with the project progress by purchasing more semi-finished wall and ceiling panels from suppliers outside Shanghai for further processing at project sites during the lockdown, hiring short term production staff and increased production hours after the lockdown. Owing to the Group’s effort as described above, the Group recorded a significant increase in sales for cleanroom wall and ceiling systems from the PRC of RMB97.4 million, or 169.6% for 1H2022 as compared to 1H2021, despite the lockdown in Shanghai.

The Group was founded in 1989 and has grown along with the cleanroom industry in Asia from the 1990's to the present. Through its dedicated efforts, the Group has established the "Channel Systems" brand for its cleanroom wall and ceiling systems and the "Micron" brand for its cleanroom equipment. The Directors believe that the Group's business performance in 1H2022 is a testament to the Group's solid business foundation supported by the Group's strong and long-term relationship with the Group's customers which provides the Group with a solid foundation for recurring business and future growth.

OUTLOOK

Looking ahead, the Group expects the strong market demand for semiconductor production facilities to continue in the near term. Supported by the Group's solid track record of over 30 years and strong customer base mainly comprising main contractors and cleanroom design and engineering companies which often engage the Group on a recurrent basis, the Directors believe that the Group is well positioned to capture future market opportunities.

In 1H2022, the Group has proven its ability to capture the market opportunities. The Group is confident that this is only the beginning and it will achieve continuous long-term organic growth.

The Group is aware of the volatility of the pandemic situation in different countries as well as global political tension which may affect the demand for semiconductor production facilities, and will closely monitor the market situation and remain vigilant. The Group will continue to be prudent in managing its business operations and financial resources and maximise its business potential amid the pandemic.

FINANCIAL REVIEW

REVENUE

Revenue by business segment

The following table sets forth a breakdown of the revenue of the Group by business segment.

	For the six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Cleanroom wall and ceiling systems	236,033	92.7	88,257	88.9
Cleanroom equipment	5,730	2.3	2,407	2.4
Others	12,706	5.0	8,580	8.7
Total	254,469	100.0	99,244	100.0

Cleanroom wall and ceiling systems

Revenue from cleanroom wall and ceiling systems for 1H2022 increased by RMB147.8 million or 167.4% as compared to 1H2021. The sales for cleanroom wall and ceiling systems from the PRC increased by RMB97.4 million, or 170.0%, while the sales for cleanroom wall and ceiling systems from the Southeast Asia also increased by RMB50.4 million or 163.4%. The increases in revenue are mainly due to the new contracts obtained in 2022 as a result of strong demand for the Group's cleanroom wall and ceiling systems. Furthermore, during 1H2022, the Group undertook more contracts which involve supply of cleanroom wall and ceilings only without installation services. These contracts are relatively smaller in size and involve expansion and/or modification of existing cleanroom facilities in the PRC.

The more sizable contracts the Group undertook in 1H2022 included:

- (a) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Malaysia, from which revenue generated for 1H2022 amounted to RMB11.5 million, representing 4.9% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (b) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a semiconductor product manufacturing facility in the PRC, from which revenue generated for 1H2022 amounted to RMB10.4 million, representing 4.4% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (c) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Malaysia, from which revenue generated for 1H2022 amounted to RMB8.8 million, representing 3.7% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (d) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Malaysia, from which revenue generated for 1H2022 amounted to RMB8.3 million, representing 3.5% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (e) a contract to supply cleanroom wall and ceiling system products for the construction of a pharmaceutical facility in Malaysia, from which revenue generated for 1H2022 amounted to RMB8.3 million, representing 3.5% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (f) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in the PRC, from which revenue generated for 1H2022 amounted to RMB8.1 million, representing 3.4% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (g) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Malaysia, from which revenue generated for 1H2022 amounted to RMB7.3 million, representing 3.1% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (h) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Singapore, from which revenue generated for 1H2022 amounted to RMB6.8 million, representing 2.9% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;

- (i) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in the PRC, from which revenue generated for 1H2022 amounted to RMB6.2 million, representing 2.6% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022;
- (j) a contract to supply cleanroom wall and ceiling system products with installation services for the construction of a semiconductor product manufacturing facility in the PRC, from which revenue generated for 1H2022 amounted to RMB5.6 million, representing 2.4% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022; and
- (k) a contract to supply cleanroom wall and ceiling system products for the construction of a semiconductor product manufacturing facility in Europe, from which revenue generated for 1H2022 amounted to RMB5.4 million, representing 2.3% of total cleanroom wall and ceiling systems revenue of the Group for 1H2022.

Cleanroom equipment

Revenue from cleanroom equipment for 1H2022 increased by RMB3.3 million or 138.1% as compared to 1H2021. The increase was due to a contract to supply cleanroom equipment for a construction of a semiconductor product manufacturing facility in the Philippines. The Group generated a revenue of RMB2.9 million, representing 51.1% of total cleanroom equipment revenue of the Group for 1H2022, from such contract in 1H2022.

Others

The Group also engages in ancillary business such as trading of cleanroom equipment and components (mainly raised floor systems) and provision of cleanroom preventive maintenance services. Revenue from ancillary business for 1H2022 increased by RMB4.1 million or 48.1% as compared to 1H2021. The increase was attributable to certain contracts to supply raised floor systems products in the Philippines.

Revenue by geographical location

The following table sets forth a geographical breakdown of the revenue of the Group, based on the locations at which the services were provided or the goods delivered.

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue from external customers		
— The PRC (excluding Hong Kong)	154,777	57,407
— Malaysia	43,214	23,457
— Philippines	24,928	3,508
— Singapore	14,629	13,618
— United States	9,178	—
— Others	7,743	1,254
	<u>254,469</u>	<u>99,244</u>

Revenue from the PRC for 1H2022 increased by RMB97.4 million, or 170.0%, as compared to 1H2021. Such increase was mainly due to the increase in cleanroom wall and ceiling systems contracts and projects in the PRC as explained above.

Revenue from Malaysia and Philippines for 1H2022 increased by RMB19.8 million and RMB21.4 million respectively as compared to 1H2021. Such increase was due to the increase in sales of cleanroom wall and ceiling systems as well as cleanroom equipment and other products as explained above.

Furthermore, during 1H2022, the Group recorded revenue from the United States for supply of cleanroom wall and ceiling systems to semiconductor product manufacturing facilities.

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth the analysis of gross profit with respective gross profit margins by business segment.

	For the six months ended 30 June			
	2022		2021	
	Gross profit	Gross profit	Gross profit	Gross profit
	profit	margin	profit	margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cleanroom wall and ceiling systems	70,529	29.9	31,003	35.1
Cleanroom equipment	456	8.0	210	8.7
Others	5,475	43.1	1,761	20.5
Total	<u>76,460</u>	<u>30.0</u>	<u>32,974</u>	33.2

The gross profit margin of cleanroom wall and ceiling systems for 1H2022 decreased by 5.2 percentage points as compared to 1H2021. As explained above, due to the lockdown measures in Shanghai, the Group's production and projects were temporarily suspended for around two months from late March 2022 to end of May 2022. To catch up with the progress of on-going projects outside Shanghai during such period, the Group bought more semi-finished wall and ceiling panels from suppliers outside Shanghai for further processing at the project sites during such period. After the lockdown, the Group also incurred extra labour costs in hiring short term production staff and making overtime payment to catch up with the production progress. Furthermore, the raw material prices had increased in 1H2022 as compared to 1H2021. All these factors had led to the decline in the gross profit margin of the cleanroom wall and ceiling systems for 1H2022 as compared to 1H2021.

The cleanroom equipment segment recorded a stable gross profit margin of 8.0% for 1H2022 as compared to a gross profit margin of 8.7% for 1H2021.

Gross profit margin of ancillary business for 1H2022 increased by 22.6 percentage points as compared to 1H2021. The increase in revenue in this segment in 1H2022 had led to a higher operational efficiency.

OTHER INCOME

During 1H2022, the Group recorded other income of RMB1.9 million in which RMB1.0 million represents the insurance claim for the flooding incident in our Malaysia office.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 26.1% to RMB5.4 million (1H2021: RMB4.3 million), which was mainly due to increase in logistic expenses as a result of increase in revenue.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses increased by 28.9% to RMB16.8 million (1H2021: RMB13.1 million), which was mainly due to increase in staff costs and net expected credit loss.

INCOME TAX EXPENSE

Income tax expense was RMB12.6 million for 1H2022 (1H2021: RMB4.7 million). The decrease in effective tax rate, representing income tax expense divided by profit before income tax, from 32.5% for 1H2021 to 24.2% for 1H2022, was mainly due to decrease in other expenses not deductible for tax purpose in the Group's subsidiaries in Malaysia.

PROFIT FOR THE PERIOD

As a result of the above and in particular, the increase in revenue from RMB99.2 million for 1H2021 to RMB254.5 million for 1H2022 and the relatively stable cost level, net profit increased by 308.2% to RMB39.5 million (1H2021: RMB9.7 million). Net profit margin increased from 9.8% for 1H2021 to 15.5% for 1H2022.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment amounted to RMB73.1 million and RMB73.5 million as at 30 June 2022 and 31 December 2021, respectively, and mainly comprised freehold land and building for the production facilities, warehouses and office premises in Malaysia of the Group.

TRADE AND OTHER RECEIVABLES

Trade and other receivables remained relatively stable at RMB107.2 million and RMB94.7 million as at 30 June 2022 and 31 December 2021.

CONTRACT ASSETS

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. The Group's contract assets comprised of unbilled revenue and retention receivables. Unbilled revenue arises when revenue had been recognised for the completion of cleanroom construction services that had been approved by the customers (supported by the customer-certified progress reports) or upon delivery of sales of goods but the Group is yet to be entitled to invoice the customers or be unconditionally/contractually entitled to the payment under the terms set out in the contracts. Retention receivables represented the retention monies required by the customers to secure the due performance of the contracts of the Group. Contract assets increased from RMB47.5 million as at 30 June 2021 to RMB137.6 million as at 30 June 2022, which is in line with the increment in revenue.

AMOUNT DUE FROM RELATED PARTIES

The amount due from related parties is trade in nature and increased from RMB0.2 million as at 31 December 2021 to RMB6.0 million as at 30 June 2022 which is in line with the increase in sales of the Group's products to related parties.

TRADE AND OTHER PAYABLES

Trade and other payables increased from RMB79.6 million as at 31 December 2021 to RMB120.2 million as at 30 June 2022. The increase was mainly due to bulk purchase of raw materials for on-going projects near to the end of 1H2022 and also cater for a few confirmed projects that required delivery in the second quarter of 2022.

HUMAN RESOURCES

As at 30 June 2022, the total number of full-time employees of the Group was 212 (as at 30 June 2021: 169). The remuneration of employees was determined according to their experience, qualifications, result of operations of the Group and market condition.

During 1H2022, staff costs including Directors' emoluments amounted to RMB14.7 million (1H2021: RMB12.9 million), representing 5.8% of the Group's revenue (1H2021: 13.0%). The increase in staff cost was mainly due to the increase in direct labour cost as explained above and increase in administrative staff cost as a result of increase number of employees.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

As at 30 June 2022, cash and cash equivalents amounted to RMB119.6 million (as at 31 December 2021: RMB110.5 million). The increase is due to cash generated from operating activities. Most of the cash and cash equivalents were denominated in Hong Kong Dollars, Malaysia Ringgit and Renminbi.

As at 30 June 2022, bank borrowings amounted to RMB68.5 million (as at 31 December 2021: RMB62.2 million) with effective interest rates of range from 3.17% to 4.35% (as at 31 December 2021: 2.3% to 4.6%), per annum.

The gearing ratio, which was calculated on the basis of bank borrowings and lease liabilities divided by total equity was 0.28 (as at 31 December 2021: 0.29).

CAPITAL STRUCTURE

As at the date of this announcement, the issued share capital of the Company was HK\$14.0 million, comprising 1,400,000,000 shares of the Company (the “**Shares**”) of nominal value of HK\$0.01 per Share.

SIGNIFICANT INVESTMENTS

As at 30 June 2022, the Group held no major investment.

MATERIAL ACQUISITIONS AND DISPOSALS

During 1H2022, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period up to the date of this announcement.

CHARGES ON THE GROUP’S ASSETS

As at 30 June 2022, RMB2.7 million of the Group’s bank deposits were pledged for the purpose of the performance, retention monies and advance payment guarantee in respect of the cleanroom projects. As at 30 June 2022, the Group’s bank loans of RMB45.5 million were secured by the legal charges over the Group’s freehold land and building.

Other than the above, as at 30 June 2022, none of the assets of the Group were pledged.

FOREIGN EXCHANGE EXPOSURE

The Group's reporting currency is RMB, and the Group is 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. The Directors have assessed the impact of such foreign currency risk and considered that it may materially affect the Group's profitability. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Board is committed to maintaining high corporate governance standards and plays a major role in the supervision of corporate governance to ensure that the Company maintains a sound governance framework and the long-term sustainable value of the shareholders of the Company (the "**Shareholders**"). The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

The Board is of the view that the Company has fully complied with all the code provisions as set out in Part 2 of the CG Code during 1H2022 and up to the date of this announcement, except for the deviation as set out below.

Pursuant to code provision C.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. During 1H2022, the post of chief executive had been vacant and the duties of chief executive were performed by the chairman of the Company, Mr. Ng Yew Sum. The Board considers that the balance of power and authority, accountability and independent decision-making under its present arrangement will not be impaired in light of the diverse background and experience of its three independent non-executive Directors.

Further, the audit committee of the Company (the “**Audit Committee**”) which comprises exclusively of independent non-executive Directors has free and direct access to the Company’s external auditor and independent professional advisers when it considers necessary. Therefore, the Directors consider that the deviation from code provision C.2.1 of the CG Code is appropriate in such circumstances. However, the Board will continue to review the current structure and if a candidate with suitable knowledge, skills and experience is identified, the Board will make an appointment to fill the post of chief executive as appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries with all the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code regarding their transactions during 1H2022 and up to the date of this announcement.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare the payment of an interim dividend of HK0.71 cents per Share for the six months ended 30 June 2022 to the Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 21 September 2022. The interim dividend will be paid on or around Friday, 30 September 2022.

The register of members of the Company will be closed from Friday, 16 September 2022 to Wednesday, 21 September 2022, both days inclusive, during which period no transfer of the Shares will be registered. In order to qualify for the interim dividend as stated, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 15 September 2022.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference which deal clearly with its authority and duties. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Martin Giles Manen, Mr. Ng Seng Leong and Mr. Wu Chun Sing. Mr. Martin Giles Manen is the chairman of the Audit Committee.

The Group’s unaudited consolidated interim results for the six months ended 30 June 2022 have been reviewed by the Audit Committee.

Grant Thornton Hong Kong Limited, the Company's auditor, has reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2022 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. The auditor's independent review report will be included in the Company's interim report for the six months ended 30 June 2022 to the Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during 1H2022 and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.channelmicron.com/>) respectively.

The interim report of the Company for the six months ended 30 June 2022 containing all the relevant information required by the Listing Rules and the relevant laws and regulations will be dispatched to the Shareholders and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our stakeholders and business partners for their ongoing support, and our Directors, management and employees for their dedication and contributions to our progress.

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

Hong Kong, 29 August 2022

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