BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(formerly known as Top Dynamic International Holdings Limited 泰邦集團國際控股有限公司)

(Stock Code: 2203)

ANNUAL REPORT
2018

This Report is printed on environmentally friendly paper from sustainably managed forests and controlled sources

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Corporate Profile

The Group is principally engaged in the assembly, packaging and sales of self-manufactured discrete semiconductors with a primary focus on applications for smart consumer electronic devices, and trading of semiconductors sourced from third-party suppliers. The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 September 2014 and its shares are listed on the Main Board.

The Group's self-manufactured products are mainly used in consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies manufactured by its customers who are mainly OEM/ODM manufacturers for well-known consumer electronic brands mainly in Korea and the PRC.

The Group's strong reputation for its reliability and ability to provide high-quality products, value-added solution kits services and engineering solutions services, as well as comprehensive customer service has been a key contributor to its growth. With technologically advanced production lines and strong technology expertise, the Group is able to offer customisable products which enable it to satisfy multiple end-market product requirements and the diverse specifications of its customers, which in turn contribute to its continued success.

In order to diversify the Group's business and broaden the source of income of the Group, the Group has been proactively seeking potential investment opportunities. As smart living including smart home solutions and smart city services has become increasingly popular, the Group believes that the growth of the smart living business is promising. As such, the Group is proactively expanding its business development effort in technology applications around smart living and smart cities related business.

In light of the further development of the business of the Group and with a view to providing the Company with a more appropriate corporate identity and strategic direction, the Company announced on 11 January 2019 its proposal to change the English name of the Company from "Top Dynamic International Holdings Limited" to "Brainhole Technology Limited" and to change the dual foreign name in Chinese of the Company from "泰邦集團國際控股有限公司" to "脑洞科技有限公司". On 20 February 2019, the shareholders of the Company approved in an extraordinary general meeting the aforesaid name change and the name change was registered at the Cayman Islands on 21 February 2019.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo

Independent Non-Executive Directors

Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Zhang Yibo

COMPANY SECRETARY

Mr. Lui Wing Yat Christopher

AUTHORISED REPRESENTATIVES

Ms. Wan Duo
Mr. Lui Wing Yat Christopher

AUDIT COMMITTEE

Mr. Xu Liang *(Chairperson)*
Mr. Chen Johnson Xi
Ms. Zhang Yibo

REMUNERATION COMMITTEE

Mr. Chen Johnson Xi *(Chairperson)*
Mr. Xu Liang
Ms. Zhang Yibo
Ms. Wan Duo

NOMINATION COMMITTEE

Ms. Zhang Yibo *(Chairperson)*
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Wan Duo

AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants
43rd Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
China Construction Bank
Dah Sing Bank

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office A, 31st Floor
Billion Plaza II
10 Cheung Yue Street
Cheung Sha Wan
Kowloon
Hong Kong

HONG KONG LEGAL ADVISER

Reed Smith Richards Butler
20th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICES

Principal share registrar

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Hong Kong branch share registrar

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

2203

WEBSITE OF THE COMPANY

www.brainholetechnology.com

Chairman's Statement

On behalf of the Board, I am pleased to present the audited financial results of the Group for the year ended 31 December 2018.

BUSINESS OVERVIEW

Overall, the Group has been faced with challenges in 2018 and the momentum of its growth has significantly slowed down in the second half of 2018, whereas material costs maintain a rising track. During the Period, the Group recorded a turnover of approximately HK$348.3 million for the year ended 31 December 2018, representing an increase of approximately 14.0% when compared to the previous year. The Group's net profit after tax for the Period was approximately HK$34.6 million, representing a drop of approximately 23.8% when compared to the previous year. We achieved earnings per share of approximately 4.33 HK cents, representing a decrease of approximately 23.8% when compared to the previous year (please refer to note 12 to the consolidated financial statements of the Group for further details).

During the Period, the Group's manufacturing operations has recorded a slight decrease in revenue of approximately 3.9% as compared to last year and the Company believes that factors such as technological advancement, economic changes and consumer favour etc., have affected customer requirements and demand. With a view to adhering to market trends, the management has studied the market indication of interests in DFN packages and expanded the Group's existing production for its DFN packages such as DFN1006, DFN2010 and DFN2510. The Group has also expanded its self-manufactured product offerings to include DFN2020 during the Period.

In addition to its manufacturing operations, the Group continues to operate its trading business during the Period, primarily to complement sales of its self-manufactured products. The Group acts as a solution kits integrator and is engaged in trading of semiconductors that its customers specifically require, but which are not manufactured by the Group. The product mix required by its customers varies from time to time, and the Group's trading segment saw an increase in turnover and an improvement in the segment profit as compared to last year. It has also grown in terms of contribution to the Group's total turnover, as faced with the slight decline in sales attributable to the Group's manufacturing segment.

As at 31 December 2018, the Group had a total of 160 customers (2017: 143 customers) from the PRC, Hong Kong, Korea, Thailand, Vietnam, Taiwan, Europe and the United States, etc.

BUSINESS DEVELOPMENT

In 2018, the Group has continued its research and development effort to strengthen its production process and quality control, and the PRC subsidiary of the Group was granted the status of High and New-Technology Enterprise by the local tax authorities and is entitled to a reduced PRC Enterprise Income Tax rate at 15% for three years from 2017.

The Group has also continued to build its knowledge base of designs and engineering solutions to expand the range of value-added services to its customers. During the Period, the Group has increased its investment in the acquisition of additional reliability testing facilities and recruited additional industry experts to enhance its capability in research and development as well as new product development.

BUSINESS OUTLOOK

In 2019, the Group expects the principal uncertainties in the market would evolve around the Sino-American trade negotiations, the "Brexit" negotiations and other global geopolitical factors which are expected to affect consumers' behavior in turn. These factors will indirectly impact the Group's sales performance as the Group's products are targeted at appliances for the consumer market. Also the semiconductor industry is characterised by rapid technological changes and evolving industry standards and an effective quality assurance system is critical to the success of the Group.

To manage risks arising from these uncertainties, the Group intends to increase its investment in the quality assurance system, for example, acquisition of additional reliability testing facilities and upgrading the existing production facilities in order to respond to the technological development which is required by its customers and explore other possible business opportunities in expanding technology applications to the smart living sector with a view to diversifying the Group's risk portfolio and expanding its business to enhance shareholders' equity.

As smart living including smart home solutions and smart city services has become increasingly popular, the Group believes that the growth of the smart living business is promising. As such, the Group is proactively expanding its business development effort in technology applications around smart living and smart cities related business.

As disclosed in the Company's announcement dated 5 March 2019, the Group entered into a sale and purchase agreement for the acquisition of Guangzhou Weaving Communication Telecommunications Technology Limited ("Guangzhou Weaving"). Guangzhou Weaving is principally engaged in broadband infrastructure construction for residential properties and providing integrated solution for smart communities and smart cities projects. Its smart community and smart city solution include hardware for security and identification purposes, software for residence management and community services. Guangzhou Weaving enjoyed significant growth in the past two years as a result of the development of the property market and the exponential growth of the smart living sector. Leveraging on its well-established relationship with telecom carriers and property developers (such as Seedland and R&F Properties), Guangzhou Weaving aims to be a leading player in the smart living sector in the Greater Bay Area. Apart from the acquisition of Guangzhou Weaving, the Group will keep searching for other acquisition targets, primary focus on smart living related technology companies, which could have potential business synergy with Guangzhou Weaving. As the smart living sector has showed healthy double digit compounded growth in the past five years, the Group believes that the economic potential of the sector is still huge in the next decade.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our staff for their hard work and the support of the Group from all our Shareholders and stakeholders.

Zhang Liang Johnson
Chairman

Hong Kong, 22 March 2019

Financial Highlights

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Turnover	**348,255**	305,513
Cost of sales	**(257,468)**	(203,842)
Gross profit	**90,787**	101,671
Other income	**1,976**	1,928
Selling and distribution costs	**(13,636)**	(11,243)
Administrative expenses	**(40,329)**	(34,567)
Profit before tax	**38,798**	57,789
Income tax expenses	**(4,155)**	(12,435)
Profit for the year	**34,643**	45,354
Other comprehensive (expense) income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of a foreign operation	**(6,930)**	9,834
Total comprehensive income for the year attributable to owners of the Company	**27,713**	55,188
Earnings per share		
– Basic and diluted *(HK cents)*	**4.33**	5.67

BUSINESS REVIEW

The Group is principally engaged in the assembly, packaging and sales of its self-manufactured discrete semiconductors and trading of semiconductors sourced from third-party suppliers.

During the Period, the Group's manufacturing operations has recorded a slight decrease in revenue of approximately 3.9% as compared to last year and the Company believes that factors such as technological advancement, economic changes and consumer favour etc., have affected customer requirements and demand. With a view to adhering to market trends, the management has studied the market indication of interests in DFN packages and expanded the Group's existing production for its DFN packages such as DFN1006, DFN2010 and DFN2510. The Group has also expanded its self-manufactured product offerings to include DFN2020 during the Period.

In addition to its manufacturing operations, the Group continues to operate its trading business during the Period, primarily to complement sales of its self-manufactured products. The Group acts as a solution kits integrator and is engaged in the trading of semiconductors that its customers specifically require, but which are not manufactured by the Group. The product mix required by its customers varies from time to time, and for 2018, the Group's trading segment saw an increase of approximately 72.1% in turnover to approximately HK$123.6 million and an improvement in the segment profit by approximately 29.2% to approximately HK$13.7 million as compared to last year. The proportion of turnover derived from the Group's trading segment accounted for approximately 35.5% for 2018, an increase from approximately 23.5% in 2017.

The Group also continues to provide tailor-made engineering solutions services that cater for its customers' product design needs during the Period. Although the Group amortises its value-added engineering solutions services into its unit sales prices and does not record them as separate sources of turnover, the Group believes that they have enabled it to create demand for its products. The Group believes that its understanding of its customers' needs and its ability to deliver high quality products and value-added solution kits services and engineering solutions services have been the key to its success in maintaining stable relationships with its existing customers and attracting new customers. The number of the Group's customers increased from 143 as at 31 December 2017 to 160 as at 31 December 2018.

The Group will remain cautious in evaluating and implementing its business strategies going forward in face of currency fluctuations and worldwide economic uncertainties, as well as rising costs of production.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties incidental to the Group's business operations include the following:

(i) as technology evolves and as part of the expansion of the Group's business, the Group may introduce additional products in its product offering range in the future, some of which may require more technologically advanced production facilities. The Group's existing production facilities and machinery may therefore become gradually obsolete, and the Group will be required to incur additional capital expenditure to invest in new production facilities and machinery;

(ii) the overall gross profit margin of the Group's self-manufactured products may experience fluctuations subject to different matrix of demands by its customers from time to time. In addition, when a more technologically advanced replacement product is introduced to the market, the demand for the existing products being replaced may decrease, and hence adversely affect the product's gross profit margin;

(iii) if the Group is unable to obtain additional packaging equipment or facilities in a timely manner and at a reasonable cost, its competitiveness and future profitability could be adversely affected;

(iv) the Group's production capacity may not correspond precisely to its production demands, and any significant increase in its idle or under-utilised production capacity during any particular period could adversely affect the Group's operating results in that period; and

(v) the Group relies on the stable operation of its production facilities and there is no assurance that its production would be free of disruptions in the future.

In addressing these risks and uncertainties, the Group will take a cautious approach when considering new purchases of equipment and machinery and will only do so if and when the Directors consider it to be in the interest of the Group to do so. The Group has also implemented a maintenance system for its facilities and equipment, which includes regular maintenance and repairs, and regular inspections of facilities and equipment. This allows the Group to operate its production lines at optimal levels. The Group carries out routine maintenance of its equipment to enhance its useful life. The Group also conducts major annual maintenance work. The Group's maintenance system aims to maintain operational efficiency and high-quality control standards. The Group has not experienced any material or prolonged interruptions to its manufacturing process due to equipment or machinery failure during the Period.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2018, the Group recorded turnover of approximately HK$348.3 million (2017: HK$305.5 million), representing an increase of approximately 14.0% when compared to the previous year. The increase in turnover was primarily attributable to the increase in the sales of the Group's trading segment as a result of customers purchasing proportionately more products sourced by the Group from third party suppliers during the Period.

The Group's turnover attributable to its self-manufactured products recorded a slight decrease of approximately 3.9% from approximately HK$233.7 million for the year ended 31 December 2017 to approximately HK$224.7 million for the year ended 31 December 2018. The Company believes that factors such as technological advancement, economic changes and consumer favour etc., have affected customer requirements and demand.

The Group's trading of products primarily complements sales of its self-manufactured products when it provides solution kits services to its customers. The turnover derived from the Group's trading business for the Period increased from approximately HK$71.8 million for the year ended 31 December 2017 to approximately HK$123.6 million for the year ended 31 December 2018 as a result of different product mix required by its customers, and increased marketing effort to brand the Group as not just a manufacturer, but also a solution kits integrator.

In terms of geographic coverage, the PRC and Korea remained as the Group's major target markets during the Period and they collectively accounted for approximately 71.5% (2017: 67.6%) of the Group's total turnover for the year ended 31 December 2018. The turnover derived from sales in the PRC market and the Korean market were approximately HK$108.9 million (2017: HK$94.5 million) and approximately HK$140.3 million (2017: HK$112.2 million) respectively, representing increase of approximately 15.2% and 25.0% when compared to the previous year. The Group's turnover from other Asian markets (i.e. Hong Kong, Thailand, Vietnam and Taiwan) has decreased by approximately 12.4% from approximately HK$84.4 million for the year ended 31 December 2017 to approximately HK$73.9 million for the year ended 31 December 2018. This reflects the uncertainties brought by the Sino-American trade negotiations during the Period.

The number of the Group's customers increased from 143 as at 31 December 2017 to 160 as at 31 December 2018. The increase reflects the Group's efforts in expanding its customer base during the Period.

FINANCIAL REVIEW *(Continued)*

Cost of Sales

The Group's cost of sales for the Period was approximately HK$257.5 million, representing an increase of approximately 26.3% from approximately HK$203.8 million in respect of the year ended 31 December 2017. Such increase was primarily attributable to an increase in material cost during the Period.

Gross Profit and Gross Profit Margin

Due to the proportionately higher rate of increase in costs of sales than the increase in turnover, the Group's gross profit for the Period was approximately HK$90.8 million, decreased by approximately 10.7% when compared to its gross profit of approximately HK$101.7 million for the year ended 31 December 2017. The Group's gross profit margin also exhibited a decrease from approximately 33.3% for the year ended 31 December 2017 to approximately 26.1% for the year ended 31 December 2018, which was primarily attributable to a decrease in the gross profit margin in the sales of the Group's self-manufactured products due to rising material cost.

For the Period, the average gross profit margin of the Group's self-manufactured products was approximately 32.1% (2017: 37.8%). The decrease was primarily due to a general trend of increasing material costs thereby driving down profit margins/the varying mix of products sold during the Period, where the Group sold more products that carry a lower gross profit margin than that in 2017. The average gross profit margin for trading of products sourced from third-party suppliers for the Period was approximately 15.0% (2017: 18.4%). Such difference was attributable to different product mix required by its customers from time to time.

Selling and Distribution Costs

The Group's selling and distribution costs for the Period was approximately HK$13.6 million, representing an increase of approximately 21.4% from that incurred for 2017. Such increase was primarily attributable to increased commission payment due to an increased number of products sold to customers referred by third-party agent during the Period.

Administrative Expenses

The Group's administrative expenses for the Period was approximately HK$40.3 million, representing an increase of approximately 16.5% over that of approximately HK$34.6 million for the year ended 31 December 2017. The increase was primarily attributable to, among others, (i) research and development expenses of approximately HK$12.1 million incurred for process innovation and product innovation; (ii) increase in staff-related expenses during the Period; and (iii) the expenses incurred by the Company in relation to a mandatory general offer which took place during the Period.

FINANCIAL REVIEW *(Continued)*

Income Tax Expenses

The Group's income tax expenses for the Period was approximately HK$4.2 million, representing a decrease of approximately 66.1% from approximately HK$12.4 million for the year ended 31 December 2017. Such decrease was primarily attributable to the over-provision of the PRC Enterprise Income Tax as the PRC subsidiary of the Group is entitled to a reduced PRC Enterprise Income Tax rate at 15% for the three years from 2017, and super-deduction of the research and development expenses for both periods.

Net Profit and Net Profit Margin

As a result of the foregoing, the Group's net profit after tax for the Period was approximately HK$34.6 million, representing a decrease of approximately 23.8% when compared to the net profit of the Group of approximately HK$45.4 million for the year ended 31 December 2017. Given the sharp increase in material costs and research and development expenses during the Period, the net profit margin of the Group during the Period (which is calculated by dividing net profit for the relevant period by the turnover for the same period) has decreased from approximately 14.9% for the year ended 31 December 2017 to approximately 9.9% for the Period.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Period, the operations of the Group were primarily funded by internally generated cash flows.

The Group's outstanding capital commitments as at 31 December 2018 amounted to approximately HK$19.8 million (2017: HK$4.4 million). Such commitments primarily related to purchase of equipment and machinery for those packages which the market showed indication of interests and quality control improvements in the production plant. Such outstanding commitments are expected to be funded by the Group's internally generated funds.

As at 31 December 2018, the Group had no outstanding bank borrowings.

Please refer to note 19 to the consolidated financial statements in this report for the ageing analysis in respect of the trade payables of the Group as at 31 December 2018 and 2017.

The Group's gearing ratio as at 31 December 2018 and 2017, which was calculated by dividing its total borrowings by its total equity as at those dates, were both nil due to the absence of borrowings as at those dates.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised with all bank deposits denominated either in HK$, US$ or RMB. The Group's liquidity and financing requirements are reviewed regularly. The Group will continue to maintain a prudent capital structure when considering financing for new investments.

CHARGES ON GROUP ASSETS

As at 31 December 2018, an amount of approximately HK$5.1 million (2017: HK$5.1 million) was pledged to a bank to secure short-term bank facilities granted to the Group.

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

The Group had not made any significant investments or material acquisitions and disposals subsidiaries during the Period.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group is exposed to foreign currency risks as several of its subsidiaries have foreign currency sales and purchases. For the years ended 31 December 2018 and 2017, approximately 73.6% and 71.3%, respectively, of the Group's sales were denominated in currencies other than the functional currency of the relevant group entities making the sale, and approximately 65.1% and 73.1%, respectively, of purchases were denominated in the relevant group entities' functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2018 and 2017 are as follows:

	Assets As at 31 December		Liabilities As at 31 December	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars	**74,994**	54,518	**6,123**	3,166
Renminbi	**7,155**	8,021	**90**	4,966
HK$	**–**	2,500	**–**	–
	82,149	65,039	**6,213**	8,132

The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

HUMAN RESOURCES

As at 31 December 2018, the Group had a workforce of 376 full-time employees (including the two executive Directors but excluding the three independent non-executive Directors) of whom approximately 96.3% were employed in the PRC and approximately 3.7% in Hong Kong. The Group's staff costs (including Directors' emoluments) for the years ended 31 December 2018 and 2017 amounted to approximately HK$41.1 million and HK$35.3 million, respectively. The Group's employees in Hong Kong are required to participate in the Mandatory Provident Fund scheme under which it is required to contribute a fixed percentage of the employees' payroll costs (up to a maximum of HK$1,500 per month) to the scheme. For the Group's employees in the PRC, the Group makes contributions to various government sponsored employee benefit funds, including housing provident fund, basic pension insurance fund, basic medical insurance, unemployment insurance, maternity insurance and work related injury insurance funds in accordance with applicable PRC laws and regulations.

The Group generally recruits employees from the open market. It actively pursues a strategy to recruit, develop and retain talented employees by (i) providing them with training programs on a regular basis to keep them abreast of their knowledge in the products it distributes, technology development and market conditions of the electronics industry; (ii) aligning employees' compensation and incentives with their performance; and (iii) providing them with a clear career path with opportunities for additional responsibilities and promotions.

ENVIRONMENTAL MATTERS

While the Group is subject to the PRC environmental laws and regulations including the Environment Protection Law of the PRC, which govern a broad range of environmental matters, including air pollution, noise emissions, discharge of waste water and waste residues, the Directors believe that the Group's production process does not generate environmental hazards which would pose a significant adverse effect on the environment and that the environmental protection measures undertaken by the Group are adequate to comply with all applicable current local and national PRC regulations.

During the Period and to the best of the Directors' knowledge, the Group had not received any complaints from its customers or any other parties in respect of any environmental protection issues, and had not experienced any material environmental incidents arising from its manufacturing activities. During the Period, no material administrative sanctions or penalties were imposed upon the Group for the violation of environmental laws or regulations which had an adverse impact on its operations.

Please also refer to the Environmental, Social and Governance Report in this report.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Liang Johnson

Mr. Zhang Liang Johnson ("**Mr. Zhang**"), aged 37, is the Chairman of the Company and has been appointed as an executive Director with effect from 19 May 2018. He is the sole shareholder of Yoho Bravo Limited, the controlling shareholder of the Company. He is an entrepreneur in various industries, including real estate, energy and film and television etc. Mr. Zhang has more than 6 years of experience in the energy sector. Mr. Zhang is the controlling shareholder and an executive director of Kinetic Mines and Energy Limited (stock code: 1277), the issued shares of which are listed on the Main Board. He is also the controlling shareholder, an executive director and the chairman of Transmit Entertainment Limited (stock code: 1326), the issued shares of which are listed on the Main Board. He is a director of Seedland Construction Holdings Limited, a company incorporated in Hong Kong on 15 July 2008 with limited liability which, through its subsidiaries, principally engaged in real estate business. Mr. Zhang has also made other financial investments in the technology and manufacturing sectors involving three-dimensional (3D) printing, virtual reality applications and artificial intelligence.

Ms. Wan Duo

Ms. Wan Duo ("**Ms. Wan**"), aged 30, has been appointed as an executive Director with effect from 19 May 2018. She holds a master's degree in education from Harvard University and a bachelor's degree in literature from Renmin University of China. She is experienced in corporate finance, mergers and acquisitions, investment management and corporate governance with a focus on financial and technology investments and management gained from financial and insurance institutions in Singapore and China. Ms. Wan is currently working in the Seedland group of China responsible for its strategic investments.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Liang

Mr. Xu Liang ("**Mr. Xu**"), aged 43, has been appointed as an independent non-executive Director with effect from 9 June 2018. He holds a bachelor's degree in English and a bachelor's degree in corporate management from Tsinghua University and a master's degree in business administration from Harvard University. He has experience in financial management of listed companies, including China Digital TV Holding Co., Ltd., which was a New York Stock Exchange-listed company (then stock code: NYSE:STV). He is also the chairman of New Money Talks （新財知社） and an independent director of Thunder Software Technology Co., Ltd., the A shares of which are listed and traded on the Shenzhen Stock Exchange (stock code: 300496.SZ).

Mr. Chen Johnson Xi

Mr. Chen Johnson Xi ("**Mr. Chen**"), aged 36, has been appointed as an independent non-executive Director with effect from 9 June 2018. He is a seasoned investor and entrepreneur having worked on numerous venture capital, private equity, IPOs and M&A transactions globally. He is currently the chief executive officer of an Asian based asset management company with businesses in financial services, telecommunications, media, technology (TMT), retail and high technology. Mr. Chen has held senior leadership roles at PwC Strategy& (Formerly Booz & Company), KPMG M&A Advisory and Accenture. He Holds a Bachelor's degree in Information Systems and Post Graduate Certificate of Applied Commerce from The University of Melbourne.

Ms. Zhang Yibo

Ms. Zhang Yibo ("**Ms. Zhang**"), aged 37, has been appointed as an independent non-executive Director with effect from 9 June 2018. She graduated with a bachelor's degree in economics from Nankai University in 2003 and a master's degree in business administration from The Hong Kong University of Science and Technology. She has experience in asset management, management of listed companies and their investment in Hong Kong and China. From October 2012 to February 2013, she was a director of Bingo Group Holdings Limited (stock code: 8220.HK) which is principally engaged in (among other things) movie production, licensing, crossover marketing and provision of interactive contents. Ms. Zhang is currently a responsible officer of Guardians Asset Management Limited and a licensed officer under the SFO, registered to conduct Type 9 (asset management) regulated activity under the SFO.

SENIOR MANAGEMENT

Mr. Shu Wa Tung Laurence

Mr. Shu Wa Tung Laurence ("**Mr. Shu**"), aged 46, joined the Group in August 2018 as our chief financial officer and he is primarily responsible for the Group's overall financial strategies and daily management of the Group's financial and accounting functions. Mr. Shu has over 25 years of experience in audit, corporate finance, investment banking and financial management. He joined Deloitte Touche Tohmatsu ("Deloitte") in 1994 and later became a manager of the Reorganisation Services Group of Deloitte and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the group's financial management functions. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司) and oversaw the group's financial management functions and corporate finance activities as well as the daily management of the group's finance department. From July 2010 to July 2018, he served as the chief financial officer of Petro-king Oilfield Services Limited (stock code: 2178) and was responsible for the group's financial, accounting and legal functions.

Mr. Shu is an independent non-executive director of Chengdu Expressway Co., Ltd. (stock code: 1785) since November 2016; an independent non-executive director of Riverine China Holdings Limited (stock code: 1417) since November 2017 and an independent non-executive director of Twintek Investment Holdings Limited (stock code: 6182) since December 2017.

Mr. Shu graduated from Deakin University, Australia in 1994 with a bachelor degree in Business majoring in Accounting. He received his CPA accreditation from both the Hong Kong Institute of CPAs and the Australian Society of CPAs in 1997 and completed his CFO Programme at 中歐國際工商學院 (China Europe International Business School) in 2009.

COMPANY SECRETARY

Mr. Lui Wing Yat Christopher

Mr. Lui Wing Yat Christopher ("**Mr. Lui**"), aged 29, was appointed as the Company Secretary of the Company with effect from 9 June 2018. Mr. Lui graduated from University College London and is a manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. He has over 7 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Mr. Lui is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the Period.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the assembly, packaging and sales of its self-manufactured discrete semiconductors and trading of semiconductors sourced from third-party suppliers.

RESULTS OF THE GROUP

The Group's results for the Period and the state of affairs of the Company and the Group as at 31 December 2018 are set out in the audited consolidated financial statements on pages 55 to 114 of this report.

BUSINESS REVIEW

A business review in respect of the Group's performance during the Period and the material factors underlying its results and financial position, principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" in this report. Please also refer to the section headed "Chairman's Statement' in this report for discussions on the Group's business outlook and the section headed "Environmental, Social and Governance Report" for the Group's environmental policies and performance during the Period. Such review and discussion form parts of this Directors' Report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five years is set out on page 116 of this report.

SHARE CAPITAL AND ISSUE OF SECURITIES DURING THE PERIOD

Details of movements in the share capital of the Company are set out in note 23 to the consolidated financial statements. No member of the Group had issued any shares, debentures, convertible securities, options, warrants or similar rights during the Period.

DIVIDENDS AND DIVIDEND POLICY

The Board does not recommend payment of any final dividend for the Period. During the Period, no interim dividend was paid or declared.

The Board has discretion to declare and distribute dividends to Shareholders subject to the provisions of the constitutional documents of the Company, and applicable laws and regulations. In considering whether to recommend or declare dividends, the Board will also take into account a number of factors including but not limited to financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

RESERVES

As at 31 December 2018, the total reserves available for distribution, taking into account accumulated losses, to Shareholders by the Company amounted to approximately HK$68.4 million (2017: HK$74.8 million). Details of movements in the reserves of the Group and of the Company during the Period are respectively set out in the Consolidated Statement of Changes in Equity and note 24 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the Period are set out in note 14 to the consolidated financial statements. The Group did not have any investment property as at 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 23 September 2015 whose terms are consistent with the provisions under Chapter 17 of the Listing Rules.

The Scheme is valid and effective for a period of 10 years from 9 October 2015 and its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefits of the Company and its Shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

Eligible participants of the Scheme include (i) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and (ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group, whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group.

The total number of Shares available for issue under the Scheme is 80,000,000 Shares, representing 10% of the total number of Shares in issue. The total number of Shares to be issued upon exercise of the share options granted to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the total number of Shares then in issue, unless approved by Shareholders in general meeting pursuant to the requirements under the Listing Rules. The number of Shares to be issued in respect of which options may be granted to a substantial Shareholder or an independent non-executive Director or any of their respective close associates (within the meaning of the Listing Rules) representing in aggregate over 0.1% of the total number of the Shares on the date of such grant or with an aggregate value in excess of HK$5,000,000 must be approved by Shareholders in general meeting.

SHARE OPTION SCHEME *(Continued)*

An offer of a grant of share options under the Scheme may be accepted within five business days from the date on which the offer is made with a cash consideration of HK$1.00 payable to the Company. The period for the exercise of a share option is determined by the Board in its sole discretion, but such period shall not be more than 10 years from the date of grant of the option.

Under the Scheme, the subscription price payable upon exercise of any options granted is determined by the Board but in any event it shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a participant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option; and (iii) the nominal value of the Shares.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company as at the date of this report are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

LIST OF DIRECTORS

The Directors during the Period and up to the date of this report are:

Executive Directors

Mr. Zhang Liang Johnson *(Chairman) (appointed as executive director with effect from 19 May 2018 and as chairman with effect from 11 January 2019)*
Ms. Wan Duo *(appointment with effect from 19 May 2018)*

Mr. Chow Hin Keong *(resignation with effect from 9 June 2018)*
Mr. Chow Hin Kok *(resignation with effect from 9 June 2018)*

Independent Non-Executive Directors

Mr. Xu Liang *(appointment with effect from 9 June 2018)*
Mr. Chen Johnson Xi *(appointment with effect from 9 June 2018)*
Ms. Zhang Yibo *(appointment with effect from 9 June 2018)*

Ms. Wong Sau Ying *(resignation with effect from 9 June 2018)*
Ms. Chan Mei Po *(resignation with effect from 9 June 2018)*
Ms. Man Oi Yuk Yvonne *(resignation with effect from 9 June 2018)*

Each of Mr. Chow Hin Keong, Mr. Chow Hin Kok, Ms. Wong Sau Ying, Ms. Chan Mei Po and Ms. Man Oi Yuk Yvonne tendered their resignation as Directors and their respective positions held in the Company as a result of a change of control of the Company, the particulars of which were set out in the announcements jointly issued by the Company and Yoho Bravo Limited dated 27 April 2018, 18 May 2018 and 8 June 2018, and the composite offer and response document dated 18 May 2018 jointly issued by the Company and Yoho Bravo Limited.

DIRECTOR'S SERVICE CONTRACTS

There are no service contracts for any of the Directors who are nominated for re-election at the forthcoming annual general meeting of the Company to be held in 2019 which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INDEMNITY OF DIRECTORS

The Directors are indemnified against actions, costs, charges, losses, damages and expenses incurred in discharge of their duties subject to the provisions of the Articles and other applicable legislation. The Company has taken out Directors' and officers' liabilities insurance for such purposes for the Period.

EMOLUMENTS OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors and the five highest paid individuals in the Group are set out in note 13 to the consolidated financial statements.

The emoluments paid or payable to the senior management of the Group who are not Directors were within the following bands:

	2018 *No. of employees*	2017 *No. of employees*
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**4**	1
	5	3

EMOLUMENT POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme. However, no option was so granted during the Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the Shares

Name of Director	Nature of interest	Number of ordinary shares held *(Note 1)*	Approximate shareholding percentage in the issued share capital of the Company *(%)*
Mr. Zhang Liang Johnson	Interest in a controlled corporation *(Note 2)*	757,258,000 Shares (L)	94.7

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) 757,258,000 Shares were held by Yoho Bravo Limited which is wholly owned by Mr. Zhang Liang Johnson. On 11 January 2019, Yoho Bravo Limited has, through its placing agent, Astrum Capital Management Limited, placed a total of 157,600,000 Shares to investors who are independent third parties of the Company ("**Placing**"). Immediately after the completion of the Placing, Yoho Bravo Limited holds 599,658,000 Shares, representing approximately 74.96% of the total issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2018, the interests and short positions of substantial Shareholders and other persons, other than the Directors or chief executives of the Company, in the Shares and the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the Shares

Name of Shareholder	Nature of interest	Number of ordinary shares held *(Note 1)*	Approximate shareholding percentage in the issued share capital of the Company *(%)*
Yoho Bravo Limited	Beneficial interest *(Note 2)*	757,258,000 Shares (L)	94.7
China Galaxy International Finance (Hong Kong) Co., Limited	Security interest in shares *(Note 3)*	757,258,000 Shares (L)	94.7

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) 757,258,000 Shares were held by Yoho Bravo Limited which is wholly owned by Mr. Zhang Liang Johnson. On 11 January 2019, Yoho Bravo Limited has, through its placing agent, Astrum Capital Management Limited, placed a total of 157,600,000 Shares to investors who are independent third parties of the Company. Immediately after the completion of the Placing, Yoho Bravo Limited holds 599,658,000 Shares, representing approximately 74.96% of the total issued share capital of the Company.

(3) The Shares are subject to security interest in favour of China Galaxy International Finance (Hong Kong) Co., Limited. China Galaxy International Finance (Hong Kong) Co., Limited is a wholly-owned subsidiary of China Galaxy International Financial Holdings Limited which in turn is wholly-owned by China Galaxy Securities Co., Ltd.. Immediately after the Placing that was completed on 11 January 2019, the security interests in the Shares held by China Galaxy International Finance (Hong Kong) Co., Limited reduced to 599,658,000 Shares, representing approximately 74.96% of the total issued share capital of the Company.

COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company and their respective close associates (as defined in the Listing Rules) has any interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Period.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company (not being a contract of service with any Director or any person engaged in the full-time employment of the Company) was entered into or was subsisting during the Period.

CONTRACTS OF SIGNIFICANCE TO THE BUSINESS OF THE GROUP

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

No contracts of significance (including those in relation to provision of services) between members of the Group and the controlling shareholders of the Company or any of its subsidiaries subsisted at the end of the Period or at any time during the Period.

ARRANGEMENT TO ACQUIRE SHARES AND DEBENTURES

At no time during the Period was the Company, its immediate holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save for the Scheme the particulars of which are disclosed in this report, the Company has not entered into any equity-linked agreement ((as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong) during the Period.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

During the Period, the Group was not aware of any incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business and operations.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

The Group strives to provide a safe workplace to its employees. It also provides competitive remuneration and benefits, as well as training programs so that staff can keep abreast with developments in the market. Employees are also provided with clear career path with opportunities for additional responsibilities and promotions based on their merits and performance.

The Group believes that product quality is the key to maintaining a good customer relationship. To achieve this goal, the Group has a set of established quality assurance standards to meet its customers' requirements, and each shipment of finished products is checked and sub-standard products will be re-worked and retested prior to delivery to customers.

The Group is also dedicated to maintaining good relationship with suppliers as long-term business partners to ensure stability of the Group's business.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers collectively accounted for approximately 36.0% (2017: 36.3%) of its total turnover for the Period and its largest customer accounted for approximately 11.1% (2017: 9.4%) of its total turnover for the Period.

The Group's five largest suppliers collectively accounted for approximately 57.2% (2017: 55.1%) of its total purchases for the Period and its largest supplier accounted for approximately 15.2% (2017: 15.3%) of its total purchases for the Period.

None of the Directors and their respective close associates (within the meaning of the Listing Rules) or any holder of Shares who, to the knowledge of the Directors, owns more than 5% of the issued Shares has any interest in any of the five largest customers or five largest suppliers of the Group during the Period.

RELATED PARTY TRANSACTION

Significant related party transactions entered into by the Group during the Period are set out in note 29 to the consolidated financial statements.

The Directors consider that these significant related party transactions disclosed in note 29 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received from each independent non-executive Director the annual confirmation of his/her independence, and the Company considers them to be independent in light of the guidelines set out in Rule 3.13 of the Listing Rules.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of not less than 25% of the issued Shares as required under the Listing Rules.

CHARITABLE DONATIONS

The Group made charitable donations of HK$100,000 (2017: HK$1,200,000) in total during the Period.

EVENTS AFTER THE REPORTING PERIOD

In light of the further development of the business of the Group and with a view to providing the Company with a more appropriate corporate identity and strategic direction, the Company announced on 11 January 2019 its proposal to change the English name of the Company from "Top Dynamic International Holdings Limited" to "Brainhole Technology Limited" and to change the dual foreign name in Chinese of the Company from "泰邦集團國際控股有限公司" to "脑洞科技有限公司". On 20 February 2019, the Shareholders of the Company approved in an extraordinary general meeting the aforesaid name change and the name change was registered in the Cayman Islands on 21 February 2019.

On 5 March 2019, Brainhole Technology Investments Limited, an indirectly wholly-owned subsidiary of the Company incorporated after 31 December 2018, entered into a sale and purchase agreement with Guangzhou Chong Dong for the purchase of the entire equity interest in Guangzhou Weaving for a cash consideration of RMB68.0 million (equivalent to approximately HK$78.2 million) subject to adjustments. The acquisition was not yet completed as of the date of approval of consolidated financial statements. Further details of the proposed acquisition are set out in the Company's announcement dated 5 March 2019.

Save for the above, there is no material event undertaken by the Company or by the Group subsequent to 31 December 2018 and up to the date of this report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by SHINEWING (HK) CPA Limited and have been reviewed by the audit committee of the Company.

A resolution for the re-appointment of SHINEWING (HK) CPA Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of
Brainhole Technology Limited

Zhang Liang Johnson
Chairman

Hong Kong, 22 March 2019

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continued growth of the Group and for safeguarding and maximising Shareholders' interests.

The Company has complied with the code provisions set out in the CG Code during the Period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules.

Upon specific enquiry made with all the Directors, the Company was not aware of any non-compliance with the Model Code during the Period regarding securities transactions by Directors.

BOARD OF DIRECTORS

Board Composition and Responsibilities

The Board composition of the Company during the Period are set out as follows:–

Executive Directors

Mr. Zhang Liang Johnson *(Chairman) (appointment with effect from 19 May 2018)*
Ms. Wan Duo *(appointment with effect from 19 May 2018)*

Mr. Chow Hin Keong *(resignation with effect from 9 June 2018)*
Mr. Chow Hin Kok *(resignation with effect from 9 June 2018)*

Independent Non-Executive Directors

Mr. Xu Liang *(appointment with effect from 9 June 2018)*
Mr. Chen Johnson Xi *(appointment with effect from 9 June 2018)*
Ms. Zhang Yibo *(appointment with effect from 9 June 2018)*

Ms. Wong Sau Ying *(resignation with effect from 9 June 2018)*
Ms. Chan Mei Po *(resignation with effect from 9 June 2018)*
Ms. Man Oi Yuk Yvonne *(resignation with effect from 9 June 2018)*

Details of background and qualifications of all existing Directors as at the date of this report are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors and senior management of the Group.

BOARD OF DIRECTORS *(Continued)*

During the Period, Mr. Chow Hin Keong served as the Chairman of the Board until his resignation with effect from 9 June 2018 and before his resignation, he was responsible for leading the Board in establishing and monitoring implementation of business strategies while Mr. Chow Hin Kok served as the Chief Executive Officer of the Group until his resignation with effect from 9 June 2018 and before his resignation, he was responsible for managing the overall business operations of the Group. Save that Mr. Chow Hin Keong and Mr. Chow Hin Kok are brothers, there is no relationship, including financial, business, family or other material/relevant relationship(s) between members of the Board during the Period. Mr. Zhang Liang Johnson was designated as the Chairman of the Board with effect from 11 January 2019.

Significant matters of the Group are required to be approved by the Board, including:

(i) formulating corporate development planning;

(ii) formulating the Company's operational and management strategies;

(iii) approving financial statements;

(iv) approving notifiable transactions and connected transactions undertaken by any member of the Group as may be required under the Listing Rules;

(v) approving the risk management and internal control systems of the Group; and

(vi) distribution of any dividend.

Appointment and Re-election of Directors

Each of the independent non-executive Directors entered into a letter of appointment with the Company for a term of one year which is terminable by either party by three months' prior notice. Each of the executive Directors entered into a service contract with the Company for a term of three years which is terminable by either party by three months prior notice. Given the appointment of all existing Board members took place during the year and was to fill in casual vacancies created due to departure of Board members, all existing Directors are required to retire, and are eligible for re-election, at the Company's forthcoming annual general meeting to be held in accordance with the Articles. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract/letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. We have also taken out Directors' and officers' liabilities insurance for such purposes for the Period.

BOARD OF DIRECTORS *(Continued)*

Directors' Training

During the Period, the Directors have participated in continuous professional development by attending a training session in respect of the continuing obligations of listed issuers on the Stock Exchange, as well as reading related materials. They also received from the Company from time to time updates on laws, rules and regulations which may be relevant to their roles, duties and functions as directors of a listed company. Particulars of participation by the Directors are set out as follows:

	Reading materials relevant to listing rules and regulatory requirements/updates	Attending training session relevant to continuing obligations of listed issuers on the Stock Exchange
Executive Directors		
Mr. Zhang Liang Johnson *(appointment with effect from 19 May 2018)*	✓	✓
Ms. Wan Duo *(appointment with effect from 19 May 2018)*	✓	✓
Mr. Chow Hin Keong *(resignation with effect from 9 June 2018)*	✓	–
Mr. Chow Hin Kok *(resignation with effect from 9 June 2018)*	✓	–
Independent Non-executive Directors		
Mr. Xu Liang *(appointment with effect from 9 June 2018)*	✓	✓
Mr. Chen Johnson Xi *(appointment with effect from 9 June 2018)*	✓	✓
Ms. Zhang Yibo *(appointment with effect from 9 June 2018)*	✓	✓
Ms. Wong Sau Ying *(resignation with effect from 9 June 2018)*	✓	–
Ms. Chan Mei Po *(resignation with effect from 9 June 2018)*	✓	–
Ms. Man Oi Yuk Yvonne *(resignation with effect from 9 June 2018)*	✓	–

BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established, with written terms of reference, three Board committees, namely audit committee, nomination committee and remuneration committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in compliance with the Listing Rules and they are posted on the websites of the Stock Exchange and the Company.

Audit Committee

The Company established an audit committee on 23 September 2015. Written terms of reference in compliance with Rule 3.22 of the Listing Rules and code provision C.3.3 of the CG Code have been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment, reappointment and removal of external auditor, monitor the integrity of the financial statements, annual reports and interim reports, and review significant financial reporting judgements contained in them, and oversee financial reporting system, risk management and internal control systems of the Group. As of 31 December 2018, the audit committee of the Company consists of three members, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo. Mr. Xu Liang is the chairperson of the audit committee.

The audit committee held 2 meetings during the Period, at which all committee members were present. The key work done by the committee during the Period included:–

- reviewing the annual and interim results of the Group and recommending the same to the Board for approval; and

- reviewing and assessing the adequacy and effectiveness of the risk management and internal control systems of the Group.

There was no disagreement between the Board and the audit committee regarding the appointment of external auditor.

BOARD COMMITTEES *(Continued)*

Nomination Committee

The Company established a nomination committee on 23 September 2015. Written terms of reference in compliance with code provision A.5.2 of the CG Code have been adopted. The primary duties of the nomination committee are to review the structure, size, composition and diversity of the Board and make recommendations to the Board on the selection of individuals nominated for directorships, appointment or reappointment of Directors and succession planning for Directors. As of 31 December 2018, the nomination committee of the Company consists of four members, namely Ms. Zhang Yibo, Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Wan Duo. Ms. Zhang Yibo is the chairperson of the nomination committee.

The Board recognises the importance of diversity in relation to its business, and has adopted a Board diversity policy. As a summary of the policy, selection of candidates has been considered from a number of aspects, 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 merits, and will be considered against objective criteria, having due regard for the benefits of diversity of the Board. The ultimate decision of Board appointment will be based on merit and contribution that the selected candidates may bring to the Board.

During the Period, the nomination committee held 3 meetings. The key work done by the committee during the Period included:

- reviewing and confirming the independence of the Company's independent non-executive Directors; and

- reviewing the structure and composition of the Board, as well as policy of nomination of Directors in light of, among other things, the diversity criteria set out in the Company's Board diversity policy.

Remuneration Committee

The Company established a remuneration committee on 23 September 2015 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with Rule 3.26 of the Listing Rules and code provision B.1.2 of the CG Code have been adopted. The primary duties of the remuneration committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review remuneration proposals of the management with reference to the Board's corporate goals and objectives, and ensure that none of the Directors or any of his/her associates is involved in deciding his/her own remuneration. As of 31 December 2018, the remuneration committee of the Company consists of four members, namely Mr. Chen Johnson Xi, Mr. Xu Liang, Ms. Zhang Yibo and Ms. Wan Duo. Mr. Chen Johnson Xi is the chairperson of the remuneration committee.

The remuneration committee is authorised by the Board to determine, subject to approval by the Board, the remuneration payable to executive Directors and members of senior management, the emolument policies and the basis for determining such emoluments. No Director or any of his/her associates was involved in deciding his/her own remuneration.

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

During the Period, the remuneration committee held 1 meeting, at which all committee members were present. The key work done by the committee during the Period included:

- reviewing the policy for the remuneration and assessing performance of executive Directors; and
- reviewing the remuneration payable to executive Directors.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code, namely:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

The Board held 5 meetings during the Period, at which the Board reviewed the Company's policies and practice on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code.

BOARD MEETINGS AND ATTENDANCE RECORD OF DIRECTORS

Code provision A.1.1 of the CG Code states that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through other electronic means of communication.

During the Period, the Board held 5 meetings, where most Directors attended the meetings, and one Shareholders' meeting was held (being the annual general meeting of the Company held on 9 May 2018). The Directors' attendance records in respect of meetings held during the Period are shown as follows:

	Attendance Record of Meetings held during the Period *(Note)*				
Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Number of total meetings	**5**	**2**	**3**	**1**	**1**
Mr. Zhang Liang Johnson *(appointment with effect from 19 May 2018)*	1/3	N/A	N/A	N/A	N/A
Ms. Wan Duo *(appointment with effect from 19 May 2018)*	3/3	N/A	0/0	0/0	N/A
Mr. Xu Liang *(appointment with effect from 9 June 2018)*	2/3	1/1	0/0	0/0	N/A
Mr. Chen Johnson Xi *(appointment with effect from 9 June 2018)*	2/3	1/1	0/0	0/0	N/A
Ms. Zhang Yibo *(appointment with effect from 9 June 2018)*	2/3	1/1	0/0	0/0	N/A
Mr. Chow Hin Keong *(resignation with effect from 9 June 2018)*	2/2	N/A	2/3	N/A	1/1
Mr. Chow Hin Kok *(resignation with effect from 9 June 2018)*	2/2	N/A	N/A	1/1	1/1

Name of Director	Attendance Record of Meetings held during the Period *(Note)* Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Ms. Wong Sau Ying *(resignation with effect from 9 June 2018)*	2/2	1/1	2/3	1/1	1/1
Ms. Chan Mei Po *(resignation with effect from 9 June 2018)*	2/2	1/1	3/3	1/1	1/1
Ms. Man Oi Yuk Yvonne *(resignation with effect from 9 June 2018)*	2/2	1/1	3/3	1/1	1/1

Note: The attendance record shown above related to those meetings of the board/committee held during the Directors' respective tenure during the Period.

AUDITOR'S REMUNERATION

The fees in respect of audit and non-audit services provided by the external services providers, SHINEWING (HK) CPA Limited (for audit services) and SHINEWING (HK) CPA Limited and its affiliated companies (for non-audit services) to the Group for the year ended 31 December 2018 amounted to approximately HK$750,000 and HK$294,000 respectively. The non-audit services included primarily services in connection with mandatory general offer, taxation, risk management and internal control consultancy.

COMPANY SECRETARY

Mr. Lui Wing Yat Christopher, the Company's company secretary, has undertaken not less than 15 hours of relevant professional training to update his skills and knowledge, during the Period.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR ACCOUNTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the Period, which give a true and fair view of the financial position and performance of the Group on a going concern basis.

Statements of Directors' responsibilities, for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditors' Report in this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility to review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls, to ensure that the systems in place are adequate and effective. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") 2013 framework. The COSO framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The five key components of the COSO framework are shown as follows:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning.

The Group's risk management and internal control systems are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Group has conducted an annual review on whether there is a need for an internal audit department. Given the Group's relatively simple corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the audit committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness.

During the Period, the Company engaged an external independent consultant with professional staff in possession of relevant expertise to conduct an independent review of the risk management and internal control systems of the Group semi-annually in order to maintain high standards of corporate governance. The review plan has been approved by the Board and its audit committee. The Board and its audit committee had also reviewed the resources, staff qualifications and experience and training programs of the external independent consultant and considered they are adequate and sufficient.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the Listing Rules.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality covenants will be in place when the Group enters into significant negotiations.

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Board and its audit committee had reviewed the adequacy and effectiveness of the Group's risk management and internal control systems semi-annually. Several areas have been considered during such reviews, which include but are not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. The Board and its audit committee were not aware of any material internal control defects, and considered such systems effective and adequate throughout the Period.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide a forum for the Shareholders to exchange views directly with the Board. Subject to provisions of the applicable laws in the Cayman Islands and rules and regulations of the Stock Exchange, the Articles require that an annual general meeting of the Company is held each year and at the venue as determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting.

According to the Articles, any one or more holders of Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The notice of requisition must be deposited at the registered office of the Company.

Subject to the provisions of the Articles, eligible Shareholders who wish to move a resolution at any extraordinary general meeting of the Company may, by means of requisition, convene an extraordinary general meeting following the procedures set out above.

Shareholders may direct enquiries about their shareholdings to the Company's share registrars. To the extent the requisite information of the Company is publicly available, Shareholders and the investing community may at any time make enquiry in respect of the Company in writing at the Company's office in Hong Kong by post, facsimile or email via the numbers and email addresses available on the Company's website at www.brainholetechnology.com.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update them with the latest business development and financial performance including the publication of interim and annual reports, the publish and posting of notices, announcements and circulars on the website of the Stock Exchange and the Company website in order to maintain a high level of transparency.

CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 13.90 of the Listing Rules, the Company has published its memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company. No amendments were made to the constitutional documents of the Company during the Period.

GENERAL

This report covers certain environmental and social responsibility aspects underlying the Group's business operations in Hong Kong and the PRC during the Period and is prepared with reference to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules ("ESG Reporting Guide").

The Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide during the Period.

For details of the Group's financial performance and corporate governance matters, please refer to other sections in the annual report of the Company of which this ESG Report forms part.

Sustainability Overview and Management Objectives

The Group believes its success is founded upon the principles of sustainability through selling high-quality products consistently, providing value-added solution kits services and engineering solutions services, whilst at the same time striving to preserve the environment and support the communities through its social responsibility practices.

The Group has a dedicated environmental, health and safety team that strives to meet relevant local/international standards relating to the Group's operations. The Group's facilities are operated under a number of quality assurance systems, namely ISO 14001:2015 Environmental Management System, IECQ QC080000:2017 Hazardous Substance Process Management System and OHSAS 18001:2007 Occupational Health and Safety Management System. The Group actively manages its business in an environmentally and socially responsible manner consistent with the policies adopted and the below sections present a brief summary of these policies and their implementation during the Period.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION

As the Group's manufacturing facilities are based in the PRC, its business operations are principally subject to the PRC environmental laws and regulations. With a view to complying with the relevant environmental laws and regulations and minimising the impact on the environment arising from the Group's business operations, the Group has continued to observe during the Period an environmental management program ("EMP") developed for the purpose of identifying aspects of the Group's operations ("Aspects") that may have significant impact on the environment in light of applicable laws and otherwise.

Under the EMP, representatives from each operational department within the Group will meet yearly with the Group's environmental management representative ("EMR") to review its key processes and identify possible Aspects underlying the operation of such department. The Group's senior management team will then discuss with the EMR regarding any significant Aspects identified, and design measures aiming at reducing the environmental impacts arising from such Aspects. These measures will be documented and the related staff will be provided with suitable training, with EMR supervision and reporting to senior management from time to time to ensure effective implementation.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION *(Continued)*

Emissions and Waste Generation

The principal types of emissions and wastes generated from the Group's business operations, i.e. the assembly and packaging of semiconductor products, and the sale of self-manufactured/third-party semiconductor products, are listed as follows and the Group believes these emissions do not have a significant adverse effect on the environment:–

- ***Greenhouse gases, i.e. carbon dioxide (CO_2), nitrogen oxides (NOx), sulphur oxides (SOx) and particulate matters (PM)***

  These greenhouse gases are principally emitted from third-party transport vehicles commissioned generally on an ad-hoc basis by the Group for the transportation of products and personnel, the emissions data of which during the Period are unavailable to the Group. The Group also owns two motor vehicles which are also used as product transportation back-up and for other business uses. The below table sets out the summary statistics relating to emissions by the motor vehicles owned by the Group during the Period and the year ended 31 December 2017:–

For the year ended 31 December 2018

	Total volume emitted during the Period (approx. kg)	Intensity *Note 1* of emission during the Period (approx. kg per person)
Carbon dioxide (CO_2)	28,250.26	77.82
Nitrogen oxides (NO_x)	46.88	0.13
Sulphur oxides (SO_x)	0.16	0.0004
Particulate matters (PM)	4.33	0.01

For the year ended 31 December 2017

	Total volume emitted (approx. kg)	Intensity *Note 2* of emission (approx. kg per person)
Carbon dioxide (CO_2)	30,712.40	87.98
Nitrogen oxides (NO_x)	52.52	0.15
Sulphur oxides (SO_x)	0.17	0.0005
Particulate matters (PM)	4.85	0.01

Note 1: Intensity is measured by dividing the total volume emitted by 363, being the average number of staff members of the Group during the Period.

Note 2: Intensity is measured by dividing the total volume emitted by 349, being the average number of staff members of the Group for the year ended 31 December 2017.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION *(Continued)*

Emissions and Waste Generation *(Continued)*

- ***Greenhouse gases, i.e. carbon dioxide (CO_2), nitrogen oxides (NO_x), sulphur oxides (SO_x) and particulate matters (PM)*** *(Continued)*

  In addition to the above direct gas emissions, the use of electricity by the Group is also indirectly attributable to production of greenhouse gases, most notably carbon dioxide, in the electricity generation process. With reference to the kilowatt-hour power generation to carbon dioxide emission ratio respectively published by the PRC provincial government and the Group's power supplier in Hong Kong, approximately 3,451 tonnes and 19 tonnes of carbon dioxide were respectively attributable to the Group's electricity usage in its production process in the PRC, and by its office and factory quarters in Hong Kong and the PRC during the Period (2017: 2,475 tonnes and 23 tonnes of carbon dioxide, respectively).

- ***Organic solvents, metal containers with organic solvents, waste cloth with organic solvents, mineral oil and depleted batteries with mercury content generated from production process and office premises respectively***

  The Group generates organic solvent wastes principally from ultrasonic cleaning of DFN products and cleaning of delicate parts in taping and bonding machines; mineral oil consumed for machines maintenance; and depleted batteries with mercury content from employees and office use. During the Period, the Group has generated a total of approximately 539.5 kg (2017: 476.5 kg) of organic solvent wastes, 520.0 kg (2017: 693.0 kg) of metal containers with organic solvents, 20.8 kg (2017: 28.2 kg) of waste cloth with organic solvents, 41.5 kg (2017: 57.1 kg) of mineral oil; and 20.5 kg (2017: 23.5 kg) of depleted batteries with mercury content. These wastes could potentially pose environmental concerns if not disposed of properly and the Group has therefore had arrangements in place (as described below) to periodically process them so as to minimise their impact on the environment.

- ***Metallic frames, paper cartons, plastic containers and glass bottles from the Group's production process and other incidental wastes***

  As part of the Group's manufacturing and trading business, it generates non-hazardous wastes such as metallic frames from forming process, paper from product packaging and office use, and plastic containers and glass bottles for storage of raw materials before utilisation. During the Period, approximately 17.7 tonnes of metallic frames, 14.7 tonnes of paper wastes, and 1.0 tonnes of plastic and other wastes have been generated as a result of the Group's business operations, whereas during the year ended 31 December 2017, approximately 13.2 tonnes of metallic frames, 13.1 tonnes of paper wastes, and 1.7 tonnes of plastic and other wastes have been generated as a result of the Group's business operations.

  The Group's factory quarters in the PRC and office premises in Hong Kong also generate certain domestic wastes which are discharged in ordinary means in compliance with applicable regulations. The Group did not receive any notification regarding sewage discharge violation during the Period. The Group believes that the discharged sewage does not pose material impact on the surrounding environment which is different from that posed by local domestic sewage discharges.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION *(Continued)*

Measures undertaken to reduce emissions and wastes

With a view to minimising the environmental impact brought by these emissions and wastes, the Group has adopted the following measures during the Period to supplement its EMP:–

1. Implementing clear guidelines as to business uses and maintenance of corporate vehicles, recording and monitoring the consumption of fuel on a continuing basis and periodically reviewing adherence to vehicle emission standards for existing corporate vehicles, so as to enhance efficiency in their deployment and reduce emissions;

2. Understanding better the Group's suppliers and subcontractors and taking into account their environmental and social responsibility practices in the selection process. Please refer to the sub-section headed "Social Responsibility Operational Practices – Supply Chain Management" below in this ESG Report for further details;

3. Commissioning organic solvent wastes, metal containers with organic solvents, waste cloth with organic solvents, mineral oil and depleted batteries with mercury content to two licensed waste disposal service providers located in Dongguan and Shenzhen, the PRC which will further process these wastes for reuse/storage. During the Period, the Group has engaged two licensed waste disposal service providers to process accumulated wastes totalling approximately 480.0 kg (2017: 480.0 kg) of organic solvent wastes, 500.0 kg (2017: 500.0 kg) of metal containers with organic solvents, 20.0 kg (2017: 20.0 kg) of waste cloth with organic solvents, 40.0 kg (2017: 40.0 kg) of mineral oil and 20.0 kg (2017: 20.0 kg) of depleted batteries with mercury content in accordance with the Solid Waste Pollution Prevention Law of the PRC requirements, thereby minimising the environmental impact from these wastes; and

4. Periodically arranging environmental compliance inspections to ensure the Group's compliance with the applicable PRC environmental laws relating to the Group's operations. During the Period, the Group has commissioned three independent environmental inspections at its factory site in Dongguan, the PRC as regards its compliance with applicable regulations on effluents, emissions and noise and has been certified by the inspecting agencies for compliance with the relevant environmental standards.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION *(Continued)*

Resources Consumption

The Group recognises the importance of efficient resources consumption and continuously aims at streamlining its operations with a view to developing an energy-efficient culture. The principal types of resources utilised by the Group in its business operations during the Period, and the measures undertaken by the Group to promote efficient usage are discussed below:–

- ***Electricity***

  Electricity is necessary for each stage of the Group's production process and is the main source of energy used. During the Period, the Group's factory facility utilised an aggregate electricity of approximately 4.8 million kilowatt hours (kWh) or, 1.63 kWh per thousand product units produced (2017: 3.5 million kWh or, 1.1 kWh per thousand product units produced). The Group's office premises in Hong Kong utilised an aggregate electricity of approximately 21,000 kWh, or 156 kWh per head, during the Period (2017: 22,000 kWh, or 167 kWh per head).

  Incidental to the Group's business operations, its factory quarters also utilised an aggregate electricity of approximately 8,500 kWh, or 44 kWh per head, during the Period (2017: 12,900 kWh, or 41 kWh per head).

  Most of the Group's factory quarters in the PRC and office premises in Hong Kong are illuminated with LED or other energy efficient lights.

  The Group has continued to adopt an internal policy during the Period to promote conservative energy uses. Under the policy, the usage of electricity in different departments is continuously monitored and there are clear guidelines on the operating hours/energy-saving measures in respect of electrical appliances such as office equipment and lighting and air conditioning facilities. For example, for energy conservation, lightings in stairwells are switched off during day time when there is sufficient light, and electrical appliances with high energy consumption characteristics are modified to the extent practicable to improve energy efficiency, etc. In addition, energy consumption efficiency of electrical appliances will also be taken into account when purchases are being considered.

- ***Vehicle Fuel***

  Apart from transportation of products via logistics companies, the Group also utilises two motor vehicles as product transportation back-up and for other business uses. During the Period, the Group's motor vehicles consumed a total of approximately 10,300 litres of fuel (2017: 11,200 litres of fuel). The Group has adopted policies to promote efficient use of corporate vehicles as described above.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION *(Continued)*

Resources Consumption *(Continued)*

- ***Paper and Packaging Materials***

  The Group mainly adopts paper cardboard packaging with customised plastic inserts for its self-manufactured products and trading products sourced from third parties in batches. During the Period, a total of approximately 20.0 tonnes and 36.6 tonnes (or 0.007 kg and 0.010 kg per thousand product units produced, respectively) of paper-based and plastic packaging materials were respectively used by the Group, whereas in 2017, a total of approximately 18.4 tonnes and 30.1 tonnes (or 0.006 kg and 0.010 kg per thousand product units produced, respectively) of paper-based and plastic packaging materials were respectively used by the Group.

  The Group's factory in the PRC and office premises in Hong Kong also utilised, respectively, approximately 3.1 tonnes and 0.2 tonnes of paper in the daily business operation during the Period for documentary uses (2017: 3.1 tonnes and 0.2 tonnes). To facilitate efficient paper usage, the Group has put in place internal guidelines regarding paper conservation. Pursuant to these guidelines, the use of paper by different departments of the Group will be accounted for and monitored, and paper-saving measures such as double-sided printing, using smaller sheets for sundry uses, and paperless internal correspondences, etc. are also adopted.

- ***Water***

  The Group's production process does not involve high level of water consumption as the water employed in cooling processes can be re-used in the same production process. Save as aforesaid, all water resources are consumed by employees in the factory quarters in the PRC and the Group's office premises in Hong Kong for daily domestic use.

  Currently, water resources supply comes from the government via its domestic water supply and the Group has not encountered any difficulty in procuring such water supply during the Period. The aggregate volume of domestic water consumed at the Group's factory quarters during the Period and 2017 amounted to approximately 684 tonnes (or an average of approximately 3.49 tonnes per residing staff at the factory quarters), and 1,161 tonnes (or an average of approximately 3.65 tonnes per residing staff at the factory quarters), respectively. The Group's factory and office utilised insignificant amount of water resources as compared to domestic water usage at factory quarters. The Group has adopted internal guidelines and provides staff education to promote water conservation, as well as routinely inspects and upkeeps water supply facilities, to reduce water wastage. To further ensure quality of water supplied for staff use, the Group has also adopted clear guidelines regarding sanitisation and filtration in water supply and storage facilities.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION *(Continued)*

Resources Consumption *(Continued)*

The Group also promotes the "3R" Program which aims at minimising, to the extent practicable, the amount of wastes produced during the course of the Group's business operations. The term "3R" represents:–

(a) Reduction – reducing the volume of relative toxicity of wastes generated to the extent practicable, by using alternative materials, processes and procedures;

(b) Reuse – reusing wastes generated and returning unused materials such as plastic containers and packaging cartons; and

(c) Recycling – converting waste materials into usable materials or extracting useful substances from them, such as recycling scrap metal, packaging material and paper.

During the Period, the Group recycled an aggregate of approximately 15.3 tonnes (2017: 15.2 tonnes) of paper-based and plastic packaging material wastes generated, which accounted for approximately 27.0% (2017: 31.3%) of the total packaging materials used by the Group during the same Period.

During the Period, to the best of the Directors' knowledge, the Group did not receive any complaint from its customers or any other parties in respect of any environmental protection issues, and had not experienced any material environmental incidents arising from its manufacturing activities. During the Period, no material administrative sanctions or penalties were imposed upon the Group for the violation of environmental laws or regulations which had an adverse impact on its operations.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES

The Group believes that its employees are indispensable in its achievement of success, and is committed to ensuring the health, safety and general welfare of its employees at work. In addition, the Group provides various job-related seminars, workshops and training courses for the employees' continuous development. Further, the Group has also adopted a number of social responsibility practices for the support of the community and upholding the Group's business integrity.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES *(Continued)*

Employment and Labour Practices

Health and Safety

The Group is committed to providing a safe working environment to its employees. The Group has adopted the Occupational Health and Safety Management System (OHSAS) 18001:2007 standards which provide a framework to assist the Group in identifying and controlling health and safety risks and reducing workplace injuries. The below sets out a few examples of the practices adopted by the Group in compliance with the applicable local laws and regulations in relation to workplace safety, and for reducing accident rate at the workplace:–

- Providing health checks to its PRC staff members as appropriate prior to commencement of employment

- Streamlining production process on a continuous basis and reducing/eliminating the use of known hazardous substances in the Group's manufacturing process to the extent practicable

- Employing certified contractors for regular inspection of fire safety equipment at the Group's factory plant and quarters in the PRC and office premises in Hong Kong

- Providing personal protective equipment and other safety equipment at the workplace

- Supervising and providing specific technical training to staff members who may come in contact with potentially hazardous substances

- Prohibiting smoking at the workplace and factory quarters

- Providing safety training to staff members and practising from time to time emergency responses in the case of fire or other hazards

- Regular cleaning of the water supply filters and daily garbage removal

During the Period, no workplace injury was recorded at the Group's factory in the PRC, and at its office premises in Hong Kong. For the year ended 31 December 2017, one minor workplace injury record was recorded at the Group's factory in the PRC, which did not result in material disruption to the Group's business operations.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES *(Continued)*

Employment and Labour Practices *(Continued)*

Vocational Training and Development

Considering its employees to be indispensable to the Group's business achievements, apart from safety-related training as mentioned above, the Group also provides both internal and external training programs to its employees regularly with a view to enhancing their work quality and personal development. Such training covers topics such as:–

- Product knowledge enhancement – training programs are held on a regular basis to familiarise its staff with the Group's products

- Market updates – staff members are brought abreast with technology development and market conditions of the electronics industry

- General training – general systems of the Group and specific systems of individual departments

- Management systems training

- Occupational safety and health training

- Management and communication techniques training

During the Period, the Group has provided/procured in aggregate approximately 8,309 hours (2017: 7,045 hours) of job-related training on the above topics to its staff.

The Group also introduces a mentorship program whereby senior staff members will supervise new employees, and provide on-job training and orientation to them to facilitate smooth integration into the Group's operation process.

Employment and Labour Standards

The Company strives to be a responsible employer and the Group is committed to implementing good employment practices, and advocates ethics and human rights at the workplace.

(a) *Practices on recruitment process*

The Group is an equal opportunity employer and recruits employees from the open market. Its employment policy is based on individual merits, suitability to the relevant job requirements, and fairness. The Group prohibits discrimination against potential candidates in the recruitment process on account of their race, colour, religion, sex and gender identity/sexual orientation, age, marital and parental status, and/or pregnancy or medical conditions.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES *(Continued)*

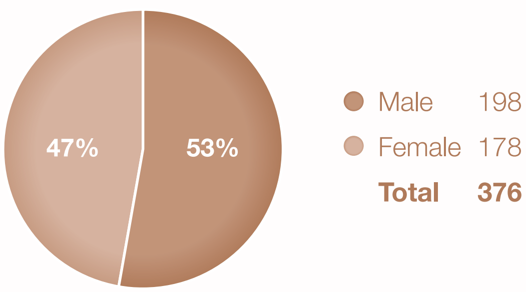
Employment and Labour Practices *(Continued)*

Employment and Labour Standards *(Continued)*

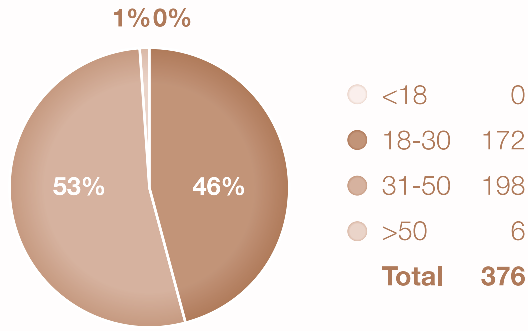
(a) Practices on recruitment process (Continued)

The Group does not hire any persons aged below 16 (or the relevant thresholds as may be prescribed under the local employment law) and its policy is not to employ any young persons aged 16 to 17 unless in compliance with applicable laws. During the recruitment process, job applicants will be requested to produce identity proof to ensure compliance with the Group's policy as stated above. During the Period, all employees of the Group are aged 18 or above. The following diagrams illustrate the Group's staff composition as at 31 December 2018 and 31 December 2017:

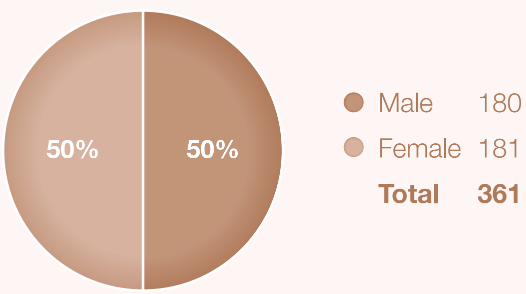
Percentage of staff by gender as at 31 December 2018



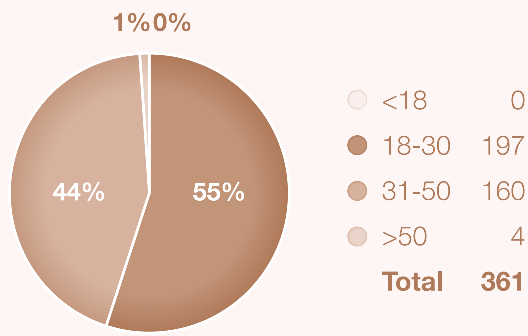
Percentage of staff by age group as at 31 December 2018



Percentage of staff by gender as at 31 December 2017



Percentage of staff by age group as at 31 December 2017



GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES *(Continued)*

Employment and Labour Practices *(Continued)*

Employment and Labour Standards *(Continued)*

(b) Practices on remuneration and promotion

The Group offers competitive salary in order to attract talents. The remuneration of each employee will be determined with reference to a number of factors including educational background, experience, job duties, professional skills and technical capabilities, as well as salary level for similar job positions in the industry. The Company also adopted on 23 September 2015 a share option scheme under which employees of the Group are, based on management's evaluation of their individual performance, eligible to be granted share options as incentives. The Group adopts an open-door communication policy and carries out annual review with its employees on their performance during the Period, during which process each employee is given equal opportunity for promotion. The Group's employees are provided with a clear career path with opportunities for additional responsibilities and promotions.

(c) Practices on working hours and general welfare

The resting time of the Group's employees is well respected and the employees are also entitled paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerised attendance registration system in place to continuously monitor the working hours of the employees. During working hours, the employees' personal movements are not restricted in any way. By reviewing the working hours of the employees, the Group strives to ensure that no forced labour is being used in the Group's business operations. The Group also adopts a no-violence policy towards sexual harassment at the workplace to protect its employees from unsolicited sexual advances.

Besides, the Group also makes statutory pension scheme contributions for the benefit of employees in accordance with the relevant legal requirements in Hong Kong and the PRC, including the mandatory provident fund contributions in Hong Kong and social insurance payments in the PRC.

To enhance overall morale of its employees, the Group also organises company events such as New Year Party, Christmas Party, Birthday Parties, Sports Days, etc. to allow the staff members to gather outside of work for bonding and team-building.

The Group believes, to the best of the Directors' knowledge and belief, that during the Period, it is generally in compliance with local labour law regarding working hours, overtime, vacation, minimum wage requirements, and compensation and dismissal. In addition, it has not received any complaint or notification from governmental authorities for contravention of any of the employment practices referred to above.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES *(Continued)*

Social Responsibility Operational Practices

Supply Chain Management

To ensure the Group's product quality, its raw material and trading goods procurement policy is to select only those suppliers on an approved list who have passed the Group's quality control tests and have a satisfactory record of quality and on-time delivery. The Group also practises ethical procurement and targets to source raw materials and trading goods from socially responsible suppliers. To achieve this, all personnel with supply chain management responsibilities are trained to ensure, to the extent practicable, that selected suppliers are legally compliant in respect of materials and products provided to the Group, especially with respect to compliance with laws against slavery and human trafficking, and other employment– and environment-related laws. Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of materials and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements of the Group are relevant factors which will be taken into account by the Group in its supplier selection process.

Apart from continuously monitoring the quality of products and materials procured under quality assurance agreements entered into with suppliers, the Group will also review suppliers' environmental and social responsibility-related practices annually through, for example, site inspections and interviews. The Group's management will review the procurement process and may source materials/products from alternative suppliers when a supplier has been identified by the Group to have deficient environmental and social responsibility practices and has not made any improvement upon request.

Product Responsibility

The Group places high priority on providing customers with quality and safe products. It has devised a stringent materials specification and implemented a Hazardous Substance Process Management System (IECQ QC080000:2017) to ensure that the use of hazardous substances in the manufacturing of its products is reduced or eliminated to the extent practicable. To ensure adherence to this policy, the Group conducts periodic assessment through third-party inspection agencies on all products manufactured by it against international standards and other benchmarks prescribed by applicable legislation such as the European RoHS (Restriction of Hazardous Substances Directive), REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) standards and HAF (Halogen– and Antimony-Free) standards. The assessment covers the entire product lifecycle from the research and development phase to customer sale and product waste disposal.

The Group's suppliers also entered into quality assurance agreements regarding control of hazardous substances and their adherence to the assurance undertakings is also a factor taken into account at the Group's annual review as a part of its supply chain management. During the Period, there was no material deviation from the benchmark standards or material customer complaints in respect of products produced by the Group, and no product recall had been made by the Group or its suppliers (in respect of materials supplied to the Group).

In terms of product description and labelling, as the Group's products are self-manufactured or sourced from third-party suppliers in accordance with the customer's order and detailed specifications regarding the product are set out in the respective agreements/purchase orders with the customers, or are otherwise available upon customer's request, its product packaging can therefore maintain a relatively simple design.

GROUP POLICIES RELATING TO CORPORATE SOCIAL RESPONSIBILITY PRACTICES *(Continued)*

Social Responsibility Operational Practices *(Continued)*

Anti-corruption Practices

Conducting business with integrity is one of the core values underlying the Group's business operations and the Group believes an effective anti-corruption mechanism is the cornerstone for the sustainable and organic growth of the Group. The Group has adopted and circulated internally clear guidelines for employees which strictly prohibit bribery, extortion, fraud, money laundering and other acts such as gambling and personal loans with persons having business relationships with the Group, misappropriation of the Group's assets, inappropriate charitable donation or sponsorship, unlawful solicitation of business or favourable treatment, provision or acceptance of "kickbacks" or unreasonable gifts, entertainments or other improper benefits, etc. and require its personnel to declare any interests in the Group's business partners, suppliers and advisers that may conflict with the Group's business interests.

Employees are also required to comply strictly with applicable laws (including the Prevention of Bribery Ordinance in Hong Kong and the PRC Criminal Law) relating to the above acts. It is also a term under the Group's standard employment contract that legal non-compliance will constitute a ground of termination of employment. The Group also expects its suppliers and business partners to similarly abide by the relevant local anti-corruption laws.

During the Period, the Group has not received any complaint or notification from governmental authorities regarding non-compliance of the Group or its employees with anti-corruption laws referred to above.

Community Participation

The Group believes that community support is important to the Group's success. Externally, it offers financial support to registered charitable organisations and encourages employees in volunteering to help the underprivileged and deserving members in its community. During the Period, the Group donated HK$100,000 in total (2017: HK$1,200,000 in total) to a number of registered charitable organisations. Organisations receiving donations from the Company during the Period include Fu Hong Society, End Child Sexual Abuse Foundation and Chu Kong Plan.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF BRAINHOLE TECHNOLOGY LIMITED
(FORMERLY KNOWN AS TOP DYNAMIC INTERNATIONAL HOLDINGS LIMITED)
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Brainhole Technology Limited (formerly known as Top Dynamic International Holdings Limited) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 56 to 115, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

Key audit matter is matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER *(Continued)*

Provision of expected credit loss (the "ECL") for trade receivables

Refer to note 17 to the consolidated financial statements and the accounting policies on pages 71 to 75.

The key audit matter	How the matter was addressed in our audit
We have identified provision of the ECL for trade receivables as a key audit matter because the carrying amount of trade receivables is significant to the consolidated financial statements and the provision of ECL involves significant judgements and estimates.	Our procedures were designed to review the internal credit ratings determined by the management and days past due as groupings of various debtors that have similar loss patterns. We also reviewed the provision matrix based on the Group's historical observed default rates that forward-looking information is considered.
Independent valuer was engaged by the management for the valuation of the ECL as at the reporting date. The valuation requires significant judgements and estimates made by the management since the calculation of the provision rates involves determination of internal credit ratings and selection of forward-looking information.	We have also challenged the reasonableness and selection of forward-looking information used in the calculation of the ECL.

OTHER INFORMATION

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Lau Kai Wong.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Turnover	7	**348,255**	305,513
Cost of sales		**(257,468)**	(203,842)
Gross profit		**90,787**	101,671
Other income	8	**1,976**	1,928
Selling and distribution costs		**(13,636)**	(11,243)
Administrative expenses		**(40,329)**	(34,567)
Profit before tax		**38,798**	57,789
Income tax expenses	9	**(4,155)**	(12,435)
Profit for the year	10	**34,643**	45,354
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of a foreign operation		**(6,930)**	9,834
Total comprehensive income for the year attributable to owners of the Company		**27,713**	55,188
Earnings per share			
– Basic and diluted *(HK cents)*	12	**4.33**	5.67

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Plant and equipment	14	**136,587**	131,481
Intangible asset	15	**–**	–
Prepayment for plant and equipment		**22,683**	5,434
		159,270	136,915
Current assets			
Inventories	16	**43,458**	38,476
Trade and other receivables	17	**87,121**	94,640
Tax recoverable		**2,377**	–
Pledged deposit	18	**5,127**	5,092
Bank balances and cash	18	**39,868**	42,135
		177,951	180,343
Current liabilities			
Trade and other payables	19	**56,861**	64,143
Amount due to immediate holding company	20	**1,100**	–
Deferred income	22	**226**	–
Tax payables		**–**	3,263
		58,187	67,406
Net current assets		**119,764**	112,937
Total assets less current liabilities		**279,034**	249,852
Non-current liabilities			
Deferred tax liability	21	**45**	70
Deferred income	22	**1,494**	–
		1,539	70
		277,495	249,782
Capital and reserves			
Share capital	23	**8,000**	8,000
Reserves	23	**269,495**	241,782
		277,495	249,782

The consolidated financial statements on pages 56 to 115 were approved and authorised for issue by the Board on 22 March 2019 and are signed on its behalf by:

Mr. Zhang Liang Johnson
Director

Ms. Wan Duo
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital *HK$'000* *(note 23(a))*	Share premium *HK$'000*	PRC statutory reserve *HK$'000* *(note 23b(i))*	Capital reserve *HK$'000* *(note 23b(ii))*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2017	8,000	104,098	4,357	8	(10,921)	89,052	194,594
Profit for the year	–	–	–	–	–	45,354	45,354
Other comprehensive income for the year:							
Exchange difference arising on translation of a foreign operation	–	–	–	–	9,834	–	9,834
Total comprehensive income for the year	–	–	–	–	9,834	45,354	55,188
Transfer to PRC statutory reserve	–	–	1,048	–	–	(1,048)	–
At 31 December 2017 and 1 January 2018	8,000	104,098	5,405	8	(1,087)	133,358	249,782
Profit for the year	–	–	–	–	–	34,643	34,643
Other comprehensive expenses for the year:							
Exchange difference arising on translation of a foreign operation	–	–	–	–	(6,930)	–	(6,930)
Total comprehensive (expenses) income for the year	–	–	–	–	(6,930)	34,643	27,713
Transfer to PRC statutory reserve	–	–	942	–	–	(942)	–
At 31 December 2018	8,000	104,098	6,347	8	(8,017)	167,059	277,495

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**38,798**	57,789
Adjustments for:		
Amortisation of deferred income	**(109)**	–
Bank interest income	**(46)**	(50)
Depreciation of plant and equipment	**19,126**	15,357
Government grants	**(1,563)**	(325)
Gain on disposal of plant and equipment	**(87)**	(78)
Operating cash flows before movements in working capital	**56,119**	72,693
Increase in inventories	**(6,751)**	(8,731)
Decrease (increase) in trade and other receivables	**4,880**	(31,762)
(Decrease) increase in trade and other payables	**(5,460)**	3,989
Cash generated from operations	**48,788**	36,189
Hong Kong profits tax paid	**(9,826)**	(8,001)
PRC enterprise income tax refund (paid), net	**9**	(3,829)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**38,971**	24,359
INVESTING ACTIVITIES		
Acquisition of plant and equipment	**(30,744)**	(55,373)
Proceeds from disposal of plant and equipment	**4,784**	4,958
Settlement of payables for plant and equipment	**(972)**	(5,606)
Prepayment for plant and equipment	**(19,554)**	(5,434)
Bank interest received	**46**	50
Placement of pledged deposit	**(35)**	(29)
NET CASH USED IN INVESTING ACTIVITIES	**(46,475)**	(61,434)
FINANCING ACTIVITIES		
Advance from the immediate holding company	**1,100**	–
Government grants received	**3,453**	325
NET CASH GENERATED FROM FINANCING ACTIVITIES	**4,553**	325
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,951)**	(36,750)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**42,135**	79,205
Effect of foreign exchange rate changes	**684**	(320)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR REPRESENTED BY BANK BALANCES AND CASH	**39,868**	42,135

1. GENERAL INFORMATION

Brainhole Technology Limited (formerly known as Top Dynamic International Holdings Limited) (the "Company") was incorporated in the Cayman Islands on 10 September 2014 as an exempted company with limited liability under the Cayman Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its Shares had been listed on GEM of the Stock Exchange since 9 October 2015 and subsequently transferred its listing to the Main Board on 21 July 2017.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of the principal place of business of the Company is Office A, 31st Floor, Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong. Its immediate holding company is Yoho Bravo Limited ("Yoho"), a company incorporated in the BVI with limited liability and its ultimate controlling party is Mr. Zhang Liang Johnson ("Mr. Zhang").

Pursuant to a special resolution passed at the Company's extraordinary general meeting held on 20 February 2019, the English name of the Company was changed from Top Dynamic International Holdings Limited to Brainhole Technology Limited and to change the dual foreign name in Chinese of the Company from "泰邦集團國際控股有限公司" to "脑洞科技有限公司"; which took effect on 20 February 2019.

The Company is principally engaged in investment holding and the principal activities of its subsidiaries are set out in note 30.

The consolidated financial statements are presented in HK$, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

The impact of the adoption of HKFRS 9 *Financial Instruments* has been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

HKFRS 9 *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3 below.

(a) ***Classification and measurements of financial instruments***

The Directors reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to measure at amortised cost as were previously measured under HKAS 39. The financial assets of the Group are trade and other receivables, pledged deposit and bank balances and cash which are classified as loan and receivables under HKAS 39. They are classified as financial assets at amortised cost as at adoption of HKFRS 9.

(b) ***Loss allowance for expected credit losses ("ECL")***

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model were not significantly different from the recognition under HKAS 39.

2. **APPLICATION OF NEW AND AMENDMENTS TO HKFRSs** *(Continued)*

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and Int(s) that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

[1] Effective for annual periods beginning on or after 1 January 2019.

[2] Effective for annual periods beginning on or after 1 January 2020.

[3] Effective for annual periods beginning on or after 1 January 2021.

[4] Effective for annual periods beginning on or after a date to be determined.

[5] Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The Directors anticipate that, except as described below, the application of other new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 16 *Leases*

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16 *Leases* *(Continued)*

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related interpretations when it becomes effective.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$3,807,000 as disclosed in note 28. It represents operating leases with original lease terms of over one year in which the Group will recognise right-to-use assets and corresponding lease liabilities unless they are exempt from the reporting obligations under HKFRS 16. The Directors expect that, apart from the changes in the measurement, presentation and disclosure as indicated above, the adoption of HKFRS 16 will not have other material impact on amounts reported in the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of a subsidiary are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Revenue recognition

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach for revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes discounts and sales related taxes.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) *(Continued)*

Contract liabilities

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. 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.

Revenue from sale of goods (i.e. sales of electronic and electrical parts and components manufactured by the Group or sourced from third party suppliers) is recognised at the point when the control of the goods is transferred to the customers (generally when goods are delivered).

Contract costs

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group recognises such costs (i.e. sales commissions) as an asset if it expects to recover these costs.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Policy applicable to the year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business and net of discounts.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2017 *(Continued)*

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to the state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognised in profit or loss.

Plant and equipment

Plant and equipment held for use in the production or supply of goods for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Intangible asset

Intangible asset with finite useful life that is acquired separately is carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represented the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

Cash and cash equivalents

Cash and short-term deposit in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposit with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposit, as defined above.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at amortised cost (debt instruments)

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

<u>Amortised cost and effective interest method</u>

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) *(Continued)*

Amortised cost and effective interest method *(Continued)*

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has 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 a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- 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 for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- 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;
- significant increases in credit risk on other financial instruments of the same 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or past due event; or

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

The ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

<u>Financial liabilities subsequently measured at amortised cost</u>

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

<u>Derecognition of financial liabilities</u>

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable before 1 January 2018)

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives and impairment assessment of plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Plant and equipment is evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss and other comprehensive income. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of plant and equipment was approximately HK$136,587,000 (2017: HK$131,481,000). No impairment loss has been recognised for the years ended 31 December 2018 and 2017.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2018, the carrying amount of inventories was approximately HK$43,458,000 (2017: HK$38,476,000). No allowance has been recognised for the years ended 31 December 2018 and 2017.

Provision of ECL for trade receivables

The Group uses a provision matrix to calculate the ECL for trade receivables. The provision rates are based on internal credit ratings and days past due as groupings of various debtors that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking information are considered. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018, the carrying amount of trade receivables was approximately HK$69,501,000 (2017: HK$70,597,000). No impairment loss has been recognised for the years ended 31 December 2018 and 2017.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which include amount due to immediate holding company, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure of the Group periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues. The Directors will also consider the raise of borrowings as second source of capital.

The Directors also endeavour to ensure the steady and reliable cash flows from the normal business operation.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 *HK$'000*	2017 *HK$'000*
Financial assets		
Financial assets at amortised cost	**121,239**	–
Loans and receivables (including cash and cash equivalents)	**–**	126,722
Financial liabilities		
Financial liabilities at amortised cost	**57,904**	64,086

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged deposit, bank balances and cash, trade and other payables and amount due to immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank balances, and fair value interest rate risk in relation to fixed-rate pledged bank deposit.

The Group currently does not have interest rate hedging policy. However, the Directors closely monitor its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Market risk *(Continued)*

(i) Interest rate risk (Continued)

Sensitivity analysis

No sensitivity analysis is presented as the Group's exposure to interest rate is not significant.

(ii) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 74% (2017: 71%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 65% (2017: 73%) of the Group's purchases is denominated in the group entity's respective functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars ("USD")	**74,994**	54,518	**6,123**	3,166
Renminbi ("RMB")	**7,155**	8,021	**90**	4,966
HK$	**–**	2,500	**–**	–
	82,149	65,039	**6,213**	8,132

The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Market risk *(Continued)*

(ii) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to fluctuation against foreign currencies USD, RMB and HK$.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in functional currency of respective group entities against the relevant foreign currencies. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates.

A positive number below indicates an increase in post-tax profit where the functional currency of respective group entities weakened 5% (2017: 5%) against the relevant foreign currencies. For a 5% (2017: 5%) strengthening of the functional currency of respective group entities against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit and the balance would be negative.

	2018	2017
	HK$'000	*HK$'000*
Effect on post-tax profit		
USD	**2,876**	2,143
RMB	**295**	128
HK$	**–**	94

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from bank balances and cash, pledged deposit and trade and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for customer with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Group's own trading records to rate its customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Internal credit rating	Description	Basis for recognising ECL
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit impaired
Medium risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit impaired
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

The table below details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk.

For the year ended 31 December 2018

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	Net carrying amount HK$'000
Trade receivables	Note	Lifetime ECL (simplified approach)	69,501	69,501

Note: The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on this item by using a provision matrix, grouped by internal credit rating and past due status.

The Group has concentration of credit risk as 15% (2017: 10%) of the total trade receivables as at 31 December 2018 was due from the Group's largest customer and 49% (2017: 40%) of the total trade receivables as at 31 December 2018 was due from the Group's five largest customers.

However, management considers the credit risk is under control since the management exercises due care in granting credits and reviews the recoverable amount of each balances at the end of each reporting period to ensure adequate impairment loss has been made for irrecoverable amount.

The Group's concentration of credit risk by geographical locations is mainly in the Korea and PRC, which accounted for 34% and 33% (2017: 27% and 38%) respectively of the total trade receivables as at 31 December 2018.

Liquidity risk

In the management of the liquidity risk, the Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and long term.

As at 31 December 2018 and 2017, the Group's remaining contractual maturities for its trade and other payables and amount due to immediate holding company, based on the undiscounted cash flows on the earliest date on which the Group can be required to pay, are within one year or repayable on demand.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) **Fair values of financial instruments**

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

7. TURNOVER AND SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are manufacturing and trading as follows:

a) Manufacturing segment engages in selling of electronic and electrical parts and components manufactured by the Group.

b) Trading segment engages in trading of electronic and electrical parts and components sourced from third-party suppliers.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the method used to distribute the products and/or the nature of production processes.

Despite that all of the Group's products are of a similar nature, they are subject to dissimilar risks and returns. Accordingly, the Group's operating activities are attributable to manufacturing and trading segments.

Segment revenue represents revenue derived from the manufacturing and trading of electronic and electrical parts and components.

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Manufacturing		Trading		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**224,667****	233,672*	**123,588****	71,841*	**348,255****	305,513*
Segment profit	**64,788**	79,910	**13,730**	10,596	**78,518**	90,506
Unallocated income					**609**	1,850
Unallocated expenses					**(40,329)**	(34,567)
Profit before tax					**38,798**	57,789

* The amounts for the year ended 31 December 2017 were recognised under HKAS 18.

** The amounts for the year ended 31 December 2018 are recognised at a point in time under HKFRS 15.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of administrative expenses and certain other income. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

7. **TURNOVER AND SEGMENT INFORMATION** *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2018 *HK$'000*	2017 *HK$'000*
Segment assets		
Manufacturing	**258,333**	239,376
Trading	**29,533**	27,977
Unallocated	**49,355**	49,905
Total assets	**337,221**	317,258
Segment liabilities		
Manufacturing	**35,530**	37,609
Trading	**14,108**	19,972
Unallocated	**10,088**	9,895
Total liabilities	**59,726**	67,476

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain plant and equipment for administrative purpose, intangible asset, tax recoverable, certain other receivables and prepayments, pledged deposit and bank balances and cash as these assets are managed on a group basis; and

- all liabilities are allocated to operating segments other than certain other payables, amount due to immediate holding company, tax payables and deferred tax liability.

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Other segment information

	Manufacturing *HK$'000*	Trading *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segments profit or segment assets				
Year ended 31 December 2018				
Gain on disposal of plant and equipment	(87)	–	–	(87)
Depreciation of plant and equipment	16,254	–	2,872	19,126
Additions to non-current assets	51,527	–	129	51,656
Year ended 31 December 2017				
Gain on disposal of plant and equipment	(78)	–	–	(78)
Depreciation of plant and equipment	13,466	–	1,891	15,357
Additions to non-current assets	61,338	–	441	61,779

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Hong Kong *HK$'000*	The PRC (excluding Hong Kong) *HK$'000*	Asia (excluding Korea, the PRC and Hong Kong) *HK$'000*	Korea *HK$'000*	Europe and other *HK$'000*	Total *HK$'000*
Revenue from external customers						
Year ended 31 December 2018	45,828	108,929	28,033	140,296	25,169	348,255
Year ended 31 December 2017	64,429	94,458	20,000	112,152	14,474	305,513
Non-current assets						
As at 31 December 2018	8,804	150,466	–	–	–	159,270
As at 31 December 2017	4,179	132,736	–	–	–	136,915

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from a customer of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2018 **HK$'000**	2017 HK$'000
Customer A[1]	38,533	N/A*

1 Customer of the Group's manufacturing and trading segments.

* The corresponding revenue did not contribute over 10% of the total revenue of the Group in 2017.

8. OTHER INCOME

	2018 **HK$'000**	2017 HK$'000
Government grants *(Note)*	**1,563**	325
Exchange gains, net	**135**	1,475
Bank interest income	**46**	50
Gain on disposal of plant and equipment	**87**	78
Amortisation of deferred income *(note 22)*	**109**	–
Sundry income	**36**	–
	1,976	1,928

Note: Government grants were received from local government authorities of which the Group fulfilled all conditions attached to the subsidies and recognised as other income upon receipts during the years ended 31 December 2018 and 2017.

9. INCOME TAX EXPENSES

	2018 *HK$'000*	2017 *HK$'000*
Current tax:		
Hong Kong	**6,075**	8,346
The PRC	**428**	4,057
	6,503	12,403
(Over) under provision in prior years:		
Hong Kong	**–**	135
PRC	**(2,323)**	–
	(2,323)	135
Deferred tax *(note 21)*	**(25)**	(103)
	4,155	12,435

(a) Pursuant to the rules and regulations of the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions for both years.

(b) The Inland Revenue (Amendment) (No. 3) Ordinance 2018 was gazetted on 29 March 2018 to implement a two-tiered profits tax regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

(c) During the year ended 31 December 2018, the PRC subsidiary, Dongguan Jia Jun Electronic Technology Company Limited ("Dongguan Jia Jun"), was recognised by the PRC government as "High and New Technology Enterprise" and was eligible to a preferential tax rate of 15% since 2018 (2017: 25%).

9. **INCOME TAX EXPENSES** *(Continued)*

The income tax expenses for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 *HK$'000*	2017 *HK$'000*
Profit before tax	**38,798**	57,789
Tax at the domestic income tax rate of 16.5%	**6,402**	9,535
Effect of different tax rate of a subsidiary operating in other jurisdiction	**(145)**	1,355
Tax effect of expenses not deductible for tax purpose	**1,737**	1,636
Tax effect of income not taxable for tax purpose	**(1)**	(121)
Tax effect of temporary differences not recognised	**7**	35
Tax effect of super-deduction on research and development costs	**(1,357)**	–
Effect of two-tiered profits tax rates regime	**(165)**	–
Utilisation of tax losses previously not recognised	**–**	(140)
(Over) under-provision in respect of prior years	**(2,323)**	135
Income tax expenses for the year	**4,155**	12,435

Details of the deferred tax are set out in note 21.

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Emoluments of the Directors and chief executive *(note 13)*:		
Fees, salaries and allowances	**1,833**	2,977
Retirement benefits scheme contributions	**16**	36
Other staff costs:		
Salaries and allowances	**35,312**	28,688
Retirement benefits scheme contributions	**3,982**	3,600
Total staff costs	**41,143**	35,301
Auditor's remuneration	**750**	720
Amount of inventories recognised as expenses	**257,468**	203,842
Depreciation of plant and equipment	**19,126**	15,357
Research and development costs *(Note)*	**12,062**	6,596
Operating lease rentals in respect of rented premises	**2,166**	1,941

Note: Included in research and development costs was staff cost of approximately HK$5,095,000 (2017: HK$2,199,000) which has been included in staff costs disclosure above.

11. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018	2017
Earnings		
Profit for the purpose of basic and diluted earnings per share	**HK$34,643,000**	HK$45,354,000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**800,000,000**	800,000,000

Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2018 and 2017.

13. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES

The emoluments paid or payable to each of the ten (2017: five) directors, which include the chief executive of the Group, were as follows:

For the year ended 31 December 2018	Executive directors						Independent non-executive directors				
	Mr. Chow Hin Kok[3]	Mr. Chow Hin Keong[3]	Mr. Zhang[1]	Ms. Wan Duo[2]	Ms. Chan Mei Po[3]	Ms. Man Oi Yuk Yvonne[3]	Ms. Wong Sau Ying[3]	Mr. Chen Johnson Xi[4]	Mr. Xu Liang[4]	Ms. Zhang Yibo[4]	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings											
Fees	–	–	–	298	53	53	53	101	101	101	760
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings *(Note (i))*											
Other emoluments											
– Salaries and allowances	546	527	–	–	–	–	–	–	–	–	1,073
– Retirement benefits scheme contributions	8	8	–	–	–	–	–	–	–	–	16
	554	535	–	298	53	53	53	101	101	101	1,849

13. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES *(Continued)*

For the year ended 31 December 2017	Executive directors: Mr. Chow Hin Kok[3] *HK$'000*	Executive directors: Mr. Chow Hin Keong[3] *HK$'000*	Independent non-executive directors: Ms. Chan Mei Po[3] *HK$'000*	Independent non-executive directors: Ms. Man Oi Yuk Yvonne[3] *HK$'000*	Independent non-executive directors: Ms. Wong Sau Ying[3] *HK$'000*	Total *HK$'000*
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings						
Fees	–	–	120	120	120	360
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings *(Note (i))*						
Other emoluments						
– Salaries and allowances	1,317	1,300	–	–	–	2,617
– Retirement benefits scheme contributions	18	18	–	–	–	36
	1,335	1,318	120	120	120	3,013

1. Appointed as executive director on 19 May 2018 and as chairman on 11 January 2019

2. Appointed on 19 May 2018

3. Resigned on 8 June 2018

4. Appointed on 9 June 2018

Mr. Chow Hin Kok was the chief executive of the Company until 8 June 2018 and his emoluments disclosed above includes those for services rendered by him as the chief executive.

Note:

(i) The emoluments represent the salaries paid to the Directors in respect of their services in connection with management of the affairs of the Group.

13. **EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES** *(Continued)*

Of the five individuals with the highest emoluments in the Group, nil (2017: two) were Directors including the chief executive of the Company whose emoluments are set out above. The emoluments of the remaining five (2017: three) individuals were as follows:

	2018 *HK$'000*	2017 *HK$'000*
Salaries and allowances	5,570	2,042
Retirement benefits scheme contributions	84	54
	5,654	2,096

Their emoluments were within the following bands:

	2018 Number of employees	2017
Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	4	1
	5	3

No emoluments were paid by the Group to any of the Directors (including the chief executive) or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, the Directors, Mr. Zhang waived his salaries of HK$298,000 (2017: nil). Except for Mr. Zhang, no other Directors (including the chief executive) or the five highest paid individuals waived or agreed to waive any emoluments for both the years ended 31 December 2018 and 2017.

14. PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
COST				
At 1 January 2017	3,690	97,803	5,190	106,683
Additions	663	57,692	441	58,796
Disposals	–	(6,662)	–	(6,662)
Write-off	–	–	(7)	(7)
Exchange realignment	214	8,397	113	8,724
At 31 December 2017 and 1 January 2018	4,567	157,230	5,737	167,534
Additions	3,040	31,238	129	34,407
Disposals	–	(6,909)	–	(6,909)
Exchange realignment	(221)	(7,197)	(95)	(7,513)
At 31 December 2018	7,386	174,362	5,771	187,519
ACCUMULATED DEPRECIATION				
At 1 January 2017	1,994	15,595	3,218	20,807
Charge for the year	656	13,574	1,127	15,357
Eliminated on disposals	–	(1,782)	–	(1,782)
Eliminated on write-off	–	–	(7)	(7)
Exchange realignment	99	1,504	75	1,678
At 31 December 2017 and 1 January 2018	2,749	28,891	4,413	36,053
Charge for the year	878	17,670	578	19,126
Eliminated on disposals	–	(2,212)	–	(2,212)
Exchange realignment	(112)	(1,853)	(70)	(2,035)
At 31 December 2018	3,515	42,496	4,921	50,932
CARRYING VALUES				
At 31 December 2018	3,871	131,866	850	136,587
At 31 December 2017	1,818	128,339	1,324	131,481

14. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	33% or over the lease term, whichever is shorter
Plant and machinery	10% – 33%
Furniture, fixtures and equipment	33%

15. INTANGIBLE ASSET

	Trademark *HK$'000*
COST	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,600
AMORTISATION	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,600
CARRYING VALUES	
At 31 December 2017 and 2018	–

The trademark has a finite useful life of 1.5 years and is amortised on a straight-line basis over its estimated useful life.

16. INVENTORIES

	2018 ***HK$'000***	2017 *HK$'000*
Raw materials	**20,425**	18,330
Finished goods	**23,033**	20,146
	43,458	38,476

17. TRADE AND OTHER RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Receivables at amortised cost		
Trade receivables	**69,501**	70,597
Deposits and other receivables	**6,743**	8,898
Prepayments	**10,877**	15,145
	87,121	94,640

The Group does not hold any collateral over its trade and other receivables. No impairment of trade and other receivables had been recognised during the years ended 31 December 2018 and 2017.

The Group allows a credit period of 0 to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the date of delivery, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2018 *HK$'000*	2017 *HK$'000*
Within 3 months	**62,314**	67,828
Over 3 months but less than 6 months	**7,187**	2,769
	69,501	70,597

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$816,000 which are past due at the end of the reporting period for which the Group has not provided for impairment loss. Receivables that were past due but not impaired related to a number of independent customers with no recent history of default.

17. **TRADE AND OTHER RECEIVABLES** *(Continued)*

The following is an aged analysis of trade receivables presented based on the due date at the end of the reporting period.

	2017 *HK$'000*
Current	69,781
Overdue within 3 months	816
	70,597

Since 1 January 2018, the Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The lifetime ECL for trade receivables based on the ageing of customers collectively that are not individually significant as follows:

	Weighted average expected loss rate	Carrying amount *HK$'000*
Debtors with low credit risk		
Current to 1 month past due	0.23%	49,067
Debtors with medium credit risk		
Current to 1 month past due	1.22%	20,434
		69,501

18. PLEDGED DEPOSIT AND BANK BALANCES AND CASH

The pledged deposit is pledged to a bank to secure short-term banking facilities of HK$5,000,000 (2017: HK$5,000,000) granted to the Group and are therefore classified as current assets. It carries fixed interest rate of 0.90% (2017: 0.58%) per annum.

Cash at banks carried interest at floating rates based on daily bank deposit rates for the years ended 31 December 2018 and 2017.

19. TRADE AND OTHER PAYABLES

	2018 ***HK$'000***	2017 *HK$'000*
Trade payables	**42,960**	53,961
Payables for plant and equipment	**1,605**	972
Receipt in advance	**–**	57
Contract liabilities *(Note)*	**57**	–
Accruals and other payables	**12,239**	9,153
	56,861	64,143

Included in the Group's accruals and other payables as at 31 December 2018 were accrued directors' emoluments of approximately HK$601,000 (2017: HK$383,000). The amount is unsecured, interest-free and repayable on demand.

19. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2018	2017
	HK$'000	*HK$'000*
Within 3 months	**40,918**	50,279
Over 3 months but less than 6 months	**2,042**	3,682
	42,960	53,961

The credit period on purchases of goods ranged from 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Note:

	31.12.2018	1.1.2018 *
	HK$'000	*HK$'000*
Receipts in advance	**57**	57

* The amount in this column is after the reclassification from the application of HKFRS 15.

Contract liabilities include advance received in respect of sales of goods. No revenue recognised during the year ended 31 December 2018 from amount included in the contract liabilities as at 1 January 2018.

20. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

21. DEFERRED TAX

The following is the deferred tax liability of the Group recognised and movements thereon during both years:

	Accelerated tax depreciation *HK$'000*
At 1 January 2017	173
Credited to profit or loss *(note 9)*	(103)
At 31 December 2017 and 1 January 2018	70
Credited to profit or loss *(note 9)*	(25)
At 31 December 2018	45

At 31 December 2018, the Group had deductible temporary differences of approximately HK$839,000 (2017: HK$797,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends to be declared in respect of profits earned by Dongguan Jia Jun from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to approximately HK$55,813,000 (2017: HK$47,568,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

22. DEFERRED INCOME

	2018 *HK$'000*	2017 *HK$'000*
Government grants		
– Current liabilities	**226**	–
– Non-current liabilities	**1,494**	–
	1,720	–

As at 31 December 2018, the Group received government grants of approximately HK$1,890,000 (2017: nil) for acquisition of machineries which has been included in the consolidated statement of financial position as deferred income and are amortised to profit or loss on a straight-line basis over the useful lives of the relevant depreciable machineries. The amount of approximately HK$109,000 (2017: nil) was credited to profit or loss during the year ended 31 December 2018.

23. SHARE CAPITAL AND RESERVES

(a) Share capital

	Number of shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	2,000,000	20,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	800,000	8,000

(b) Reserves

(i) PRC statutory reserve

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of Dongguan Jia Jun. Appropriations to the reserves were determined by the board of directors of Dongguan Jia Jun and can be used to offset accumulated losses and increase capital upon approval from the relevant government authorities.

(ii) Capital reserve

Capital reserve represents the difference between the aggregate amount of issued and fully paid share capital of the subsidiaries acquired by the Company and the nominal amount of the shares issued by the Company as consideration.

24. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current asset			
Investments in subsidiaries		**54,396**	54,396
Current assets			
Amount due from subsidiaries	*(a)*	**79,613**	74,585
Prepayments and other receivables		**274**	657
Bank balances and cash		**13**	8,449
		79,900	83,691
Current liabilities			
Other payables		**2,423**	893
Amount due to a subsidiary	*(a)*	**–***	–
Amount due to immediate holding company	*(a)*	**1,100**	–
		3,523	893
Net current assets		**76,377**	82,798
		130,773	137,194
Capital and reserves			
Share capital	*23*	**8,000**	8,000
Reserves	*(b)*	**122,773**	129,194
		130,773	137,194

* The balance was presented as "nil" as a result of rounding and less than HK$1,000.

24. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

(b) Movements in the Company's reserves

	Share premium HK$'000	Capital reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	104,098	54,396	(22,585)	135,909
Loss and total comprehensive expense for the year	–	–	(6,715)	(6,715)
At 31 December 2017 and 1 January 2018	104,098	54,396	(29,300)	129,194
Loss and total comprehensive expense for the year	–	–	(6,421)	(6,421)
At 31 December 2018	104,098	54,396	(35,721)	122,773

Note: Capital reserve represents the difference between the nominal value of the shares issued by the Company for the acquisition of equity interests of its subsidiaries and the net assets value of its subsidiaries at the date of acquisition.

25. RETIREMENT BENEFIT SCHEMES

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan and the assets of the MPF Scheme are held separately from those of the Group in funds administered by independent trustee. Under the MPF Scheme, the Group and its employees makes monthly contributions to the MPF Scheme at 5% of the employee's earnings capped at HK$1,500 per month to the MPF Scheme in both years.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of approximately HK$3,998,000 (2017: HK$3,636,000) represent contributions payable to these schemes by the Group during the year ended 31 December 2018. Contributions to the scheme vest immediately.

26. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's Scheme, was adopted pursuant to a resolution passed on 23 September 2015 for the primary purpose of rewarding the Directors and eligible employees, advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group whom board considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the Shares in issue at any point in time, without prior approval from the Shareholders. Besides, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under any share option schemes of the Company must not exceed such number of Shares as shall represent 30% of the total number of Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue at any point in time, without prior approval from the Shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 (or such other amount as shall be permissible under the Listing Rules from time to time) must be approved in advance by the Shareholders.

Options may be exercised in accordance with the terms of the Scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the offer date. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Shares as stated in Stock Exchange's daily quotations sheets on the date on which the option is offered to a participant ("Offer Date"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.

At 31 December 2018, no options had been granted or remained outstanding under the Scheme (2017: nil).

27. CAPITAL COMMITMENT

At the end of the reporting period, the Group has the following capital commitment in respect of the acquisition of plant and equipment:

	2018 HK$'000	2017 HK$'000
Contracted for but not provided in the consolidated financial statements	**19,811**	4,363

28. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**1,347**	1,947
In the second to fifth year inclusive	**2,460**	2,225
Over five years	**–**	163
	3,807	4,335

Operating lease payments represent rental payable by the Group for certain of its office and production plant. Leases are negotiated for original terms of two to ten years (2017: two to ten years) and rentals are fixed over the lease terms of respective leases.

29. RELATED PARTY DISCLOSURES

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following transaction with its related parties.

(a) Related parties' transactions

During the years ended 31 December 2018 and 2017, the Group was granted the right to use two trademarks registered by a company (the "Related Company") jointly controlled by Mr. Chow Hin Keong and an independent third party at nil consideration. Mr. Chow Hin Keong was a shareholder and a director of the Company, who disposed all of his beneficial interest in the Company on 27 April 2018 and resigned as a director of the Company on 8 June 2018. Mr. Chow Hin Keong remained as a director of the Group's principal operating subsidiaries.

(b) Compensation of key management personnel

The Directors considered that they are the only key management personnel of the Group for the years ended 31 December 2018 and 2017 and their emoluments are disclosed in note 13.

The emoluments of the Directors are determined by the Board with reference to the performance of individuals and market trends.

(c) Facility from immediate holding company

The Company entered into a facility letter with Yoho (as lender), pursuant to which the Company can borrow from Yoho for short-term borrowing amounting to HK$4,020,000 with an interest rate of 5% per annum for 12 months from the withdrawal date.

30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place/ country of incorporation/ registration/ operation	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
			2018	2017	
Directly held					
Top Dynamic International (BVI) Ltd	BVI	USD1,000	**100%**	100%	Investment holding
Tech Elite Investments Limited*	BVI	USD1	**100%**	–	Investment holding
Indirectly held					
Top Dynamic (BVI) Ltd	BVI	USD100	**100%**	100%	Investment holding
Top Dynamic Electronics Limited	Hong Kong	HK$1	**100%**	100%	Trademark holding
Top Empire Management Limited	Hong Kong	HK$1	**100%**	100%	Provision of management service
Top Dynamic Enterprises Limited	Hong Kong	HK$1	**100%**	100%	Trading of electronic and electrical parts and components
Dongguan Jia Jun *(Notes (i) and (ii))*	PRC	USD12,000,000	**100%**	100%	Manufacturing and trading of electronic and electrical parts and components

* Incorporated during the year ended 31 December 2018.

Notes:

(i) Dongguan Jia Jun is a wholly-owned foreign enterprise established in the PRC.

(ii) The English translation of the company name is for reference only. The official name of this company is 東莞市佳駿電子科技有限公司.

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 *HK$'000*	Financing cash flows *HK$'000*	31 December 2018 *HK$'000*
Amount due to immediate holding company	–	1,100	1,100

32. EVENTS AFTER THE REPORTING PERIOD

On 5 March 2019, Brainhole Technology Investments Limited, an indirectly wholly-owned subsidiary of the Company incorporated after 31 December 2018, entered into a sale and purchase agreement with Guangzhou Chong Dong for the purchase of the entire equity interest in Guangzhou Weaving, for a cash consideration of RMB68.0 million (equivalent to approximately HK$78.2 million) subject to adjustments. The acquisition was not yet completed as of the date of approval of consolidated financial statements. Further details of the proposed acquisition are set out in the Company's announcement dated 5 March 2019.

Financial Summary of the Group

	For the year ended 31 December				
	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Results					
Turnover	159,323	215,273	254,493	305,513	**348,255**
Profit before tax	21,797	37,688	57,886	57,789	**38,798**
Total comprehensive income for the year attributable to owners of the Company	16,243	21,543	39,639	55,188	**27,713**

	As at 31 December				
	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Assets and Liabilities					
Total assets	137,575	209,641	258,977	317,258	**337,221**
Total liabilities	116,261	54,686	64,383	67,476	**59,726**
Total equity	21,314	154,955	194,594	249,782	**277,495**

Note:

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 September 2014. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows in this report included the results and cash flows of the companies now comprising the Group as if the current Group structure had been in existence throughout the year ended 31 December 2014. The consolidated statements of financial position of the Group as at 31 December 2014 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current Group structure had been in existence at those dates.

The financial results of the Group for the year ended 31 December 2014 and its financial position as at 31 December 2014 are extracted from the prospectus of the Company dated 30 September 2015.

The financial results of the Group for the years ended 31 December 2015, 2016 and 2017 are extracted from the Company's annual reports 2015, 2016 and 2017.

Definitions

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

"Articles"	the articles of association of the Company adopted on 23 September 2015
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company"	Brainhole Technology Limited 脑洞科技有限公司 (formerly known as Top Dynamic International Holdings Limited 泰邦集團國際控股有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Guangzhou Chong Dong"	Guangzhou Chong Dong Technology Co., Ltd.（廣州蟲洞科技有限公司*）, a company established in the PRC and is wholly beneficially owned by Mr. Zhang
"Guangzhou Weaving"	Guangzhou Weaving Communications Telecommunications Technology Limited（廣州織網通訊科技有限公司*）, a company established in the PRC
"HK$" or "HK dollar(s)" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Korea"	the Republic of Korea

Definitions

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and/or otherwise modified from time to time as the context may require
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	a code of conduct adopted by the Company regarding securities transactions by Directors and employees of the Group on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules
"Period"	the year ended 31 December 2018
"PRC"	the People's Republic of China, save that, for the purpose of this report and unless the context otherwise requires, references in this report do not include Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Scheme"	the share option scheme of the Company adopted by the Shareholders on 23 September 2015
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"%"	per cent

* *The English translation of the company name is for reference only. The official name of this company is in Chinese.*