

BRAINHOLE TECHNOLOGY LIMITED

脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2203



BRAINHOLE
TECHNOLOGY

Interim Report
2020



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FINANCIAL RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2020 together with the unaudited comparative figures for the corresponding period in 2019, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
Revenue	3	111,565	177,772
Cost of sales		(99,086)	(137,982)
Gross profit		12,479	39,790
Other income		1,546	767
Selling and distribution costs		(3,586)	(6,309)
Administrative expenses		(30,722)	(30,394)
Finance costs	4	(993)	(136)
(Loss) profit before tax		(21,276)	3,718
Income tax expenses	5	(222)	(927)
(Loss) profit for the period	6	(21,498)	2,791
Other comprehensive expense for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		(3,773)	(935)
Total comprehensive (expense) income for the period		(25,271)	1,856
(Loss) profit for the period attributable to:			
– Owners of the Company		(21,498)	2,777
– Non-controlling interests		–	14
		(21,498)	2,791
Total comprehensive (expense) income attributable to:			
– Owners of the Company		(25,271)	1,842
– Non-controlling interests		–	14
		(25,271)	1,856
(Loss) earnings per share	7	(2.69)	0.35
– Basic and diluted (HK cents)			

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Non-current assets			
Plant and equipment	9	151,620	145,286
Right-of-use assets		5,201	4,526
Finance lease receivable		639	842
Intangible assets		2,317	2,515
Deferred tax assets		4,994	5,092
Prepayment for plant and equipment		5,485	20,547
		170,256	178,808
Current assets			
Inventories		28,457	30,847
Finance lease receivable		350	322
Trade and other receivables	10	96,442	117,586
Contract assets		810	784
Amounts due from related companies	14	7,993	7,360
Tax recoverable		2,854	3,037
Bank balances and cash		52,966	56,018
		189,872	215,954
Non-current asset classified as held-for-sale	11	9,430	15,276
		199,302	231,230
Current liabilities			
Trade and other payables	12	73,626	91,505
Lease liabilities		3,315	2,535
Deferred income		394	300
Consideration payable		51,514	51,514
Tax payables		242	–
Loan from immediate holding company		35,677	34,776
		164,768	180,630
Net current assets		34,534	50,600
Total assets less current liabilities		204,790	229,408

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
<i>Notes</i>		
Non-current liabilities		
Lease liabilities	2,196	2,311
Deferred tax liability	356	413
Deferred income	2,629	1,804
	5,181	4,528
	199,609	224,880
Capital and reserves		
Share capital	8,000	8,000
Reserves	191,609	216,880
	199,609	224,880

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Capital reserve	Translation reserve	Merger reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2018 as originally stated	8,000	104,098	6,347	8	(8,017)	-	167,059	277,495	-	277,495
Effect of adopting merger accounting for common control combinations	-	-	694	9,551	(2,664)	39,953	2,178	49,712	852	50,564
Impact on adoption of HKFRS 16	-	-	-	-	5	-	(270)	(265)	-	(265)
At 1 January 2019 (audited) (restated)	8,000	104,098	7,041	9,559	(10,676)	39,953	168,967	326,942	852	327,794
Profit for the period	-	-	-	-	-	-	2,777	2,777	14	2,791
Other comprehensive expense for the period:										
Exchange difference arising on translation of foreign operations	-	-	-	-	(935)	-	-	(935)	-	(935)
Total comprehensive (expense) income for the period	-	-	-	-	(935)	-	2,777	1,842	14	1,856
Acquisition of additional interest in a subsidiary from non-controlling shareholders	-	-	-	(23,473)	-	24,339	-	866	(866)	-
At 30 June 2019 (unaudited) (restated)	8,000	104,098	7,041	(13,914)	(11,611)	64,292	171,744	329,650	-	329,650

Attributable to owners of the Company

	Share capital	Share premium	Statutory reserve	Capital reserve	Translation reserve	Merger reserve	Retained profits	Total	Non- controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020 (audited)	8,000	104,098	7,437	(11,140)	(14,926)	12,778	118,633	224,880	-	224,880
Loss for the period	-	-	-	-	-	-	(21,498)	(21,498)	-	(21,498)
Other comprehensive expense for the period:										
Exchange difference arising on translation of foreign operations	-	-	-	-	(3,773)	-	-	(3,773)	-	(3,773)
Total comprehensive expense for the period	-	-	-	-	(3,773)	-	(21,498)	(25,271)	-	(25,271)
At 30 June 2020 (unaudited)	8,000	104,098	7,437	(11,140)	(18,699)	12,778	97,135	199,609	-	199,609

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
OPERATING ACTIVITIES		
(Loss) profit before tax	(21,276)	3,718
Adjustments for:		
Amortisation of intangible assets	150	128
Amortisation of deferred income	(148)	(115)
Bank interest income	(26)	(30)
Depreciation of plant and equipment	10,877	12,317
Depreciation of right-of-use assets	1,707	1,448
Finance cost on loan from immediate holding company	901	–
Finance cost on lease liabilities	92	136
Gain on disposal of plant and equipment	(33)	–
Government grants	(545)	(220)
Interest Income on finance lease	(71)	(94)
Loss on disposal of non-current assets classified as held-for-sale	641	–
Written off of plant and equipment	–	2
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(7,731)	17,290
Decrease (increase) in inventories	2,150	(415)
Decrease (increase) in trade and other receivables	20,428	(8,013)
(Increase) decrease in contract assets	(41)	2,537
Increase in amounts due from related companies	(775)	(1,047)
Decrease in trade and other payables	(14,612)	(13,465)
Decrease in finance lease receivable	225	236
	<hr/>	<hr/>
Cash used in operations	(356)	(2,877)
Hong Kong profits tax paid	(192)	–
PRC enterprise income tax paid	(80)	(2,091)
	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(628)	(4,968)

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(3,700)	(9,040)
Prepayment for plant and equipment	(567)	(8,590)
Settlement of payables for plant and equipment	(5,129)	(1,347)
Acquisition of intangible assets	–	(517)
Withdrawal of pledged deposit	–	5,127
Bank interest received	26	30
Proceeds from disposal of plant and equipment	2,079	–
Proceeds from disposal of non-current assets classified as held-for-sale	4,950	–
NET CASH USED IN INVESTING ACTIVITIES	(2,341)	(14,337)
FINANCING ACTIVITIES		
Government grants received	1,416	220
Repayment of lease liabilities	(1,805)	(1,739)
Repayment of loan from immediate holding company	(13,630)	–
Loan from immediate holding company	14,000	11,968
Interest expenses paid	(370)	–
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(389)	10,449
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,358)	(8,856)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	56,018	46,879
Effect of foreign exchange rate changes	306	331
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	52,966	38,354

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

1. GENERAL INFORMATION

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 of Hong Kong Limited (the “Stock Exchange”) since 9 October 2015 and subsequently transferred its listing to the Main Board of the Stock Exchange 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 British Virgin Islands with limited liability and its ultimate controlling party is Mr. Zhang Liang Johnson (“Mr. Zhang”).

The Company is principally engaged in investment holding. The principal activities of its subsidiaries are the manufacturing and trading of electronic and electrical parts and components, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial results of the Group for the Period are presented in HK\$ which is the same as the functional currency of the Company.

The unaudited condensed consolidated financial results of the Group for the Period have been prepared in accordance with the applicable disclosure requirements of the Listing Rules and the Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the HKICPA.

The unaudited condensed consolidated financial results have been prepared on the historical cost basis except for consideration payable at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The basis of preparation and accounting policies adopted in preparing these unaudited condensed consolidated financial results for the Period are consistent with those adopted in the preparation of the Group's annual report for the year ended 31 December 2019.

In the current period, the Group has applied for the first time the following new or revised HKFRSs that are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The adoption of the above new or revised HKFRSs in the current period has no material effect on the amounts reported and/or disclosures set out in these unaudited condensed consolidated financial statements.

The Group has not early adopted any new and amendments to HKFRSs that have been issued but are not yet effective.

The unaudited condensed consolidated financial results have not been audited nor reviewed by the auditor of the Company, but have been reviewed by the audit committee of the Company.

The preparation of unaudited condensed consolidated financial results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies.

3. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors, 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 *Operating Segments* are 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.
- c) Broadband infrastructure and smart domain segment engages in the provision of broadband infrastructure construction services, promotion of broadband services, smart domain solution services and operating leases for broadband infrastructure.

Segment revenue represents revenue derived from the manufacturing and trading of electronic and electrical parts and components, and provision of broadband infrastructure construction services, promotion of broadband services, smart domain solution services and operating leases for broadband infrastructure. An analysis of the Group's revenue for the period from continuing operations is as follows:

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Manufacturing electronic goods	55,857	102,747
Trading of electronic goods	24,851	44,350
Broadband infrastructure and smart domain:		
– Broadband infrastructure construction services	17,635	15,752
– Commission income	5,897	6,632
– Provision of smart domain solution services	6,827	7,742
	111,067	177,223
Revenue from other sources		
Broadband infrastructure and smart domain:		
Rental income from broadband infrastructure under operating lease		
– Lease payments that are fixed at a rate	498	549
	111,565	177,772

Disaggregation of revenue from contracts with customers by timing of recognition

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
Timing of revenue recognition		
At a point in time	93,432	161,471
Over time	17,635	15,752
	111,067	177,223
Total revenue from contracts with customers	111,067	177,223

Segment revenue and results

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

	Six months ended 30 June							
	Manufacturing		Trading		Broadband infrastructure and smart domain		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)		(Restated)		(Restated)
Segment revenue	55,857	102,747	24,851	44,350	30,857	30,675	111,565	177,772
Segment (loss) profit	(3,809)	18,340	3,196	4,302	1,652	1,090	1,039	23,732
Unallocated income							959	326
Unallocated expenses							(23,274)	(20,340)
(Loss) profit before tax							(21,276)	3,718

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

Segment assets and liabilities

The followings are analysis of the Group's assets and liabilities by reportable and operating segments:

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
SEGMENT ASSETS		
Manufacturing	203,578	236,533
Trading	14,566	29,521
Broadband infrastructure and smart domain	87,560	83,941
Unallocated	63,854	60,043
	369,558	410,038
SEGMENT LIABILITIES		
Manufacturing	30,174	37,855
Trading	10,241	20,519
Broadband infrastructure and smart domain	34,628	31,428
Unallocated	94,906	95,356
	169,949	185,158

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 and right-of-use assets for administrative purpose, certain intangible assets, tax recoverable, certain other receivables and prepayments, pledged deposit and certain 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, tax payables, deferred tax liability, consideration payable and loan from immediate holding company.

4. FINANCE COSTS

Interest on:
Lease liabilities
Loan from immediate holding company

Six months ended 30 June	
2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
92	136
<u>901</u>	<u>–</u>
993	136

5. INCOME TAX EXPENSES

The Group calculates the period income tax expenses using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expenses in the unaudited condensed consolidated statement of profit or loss and other comprehensive income are:

Six months ended 30 June	
2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
Current tax:	
Hong Kong	790
The PRC	196
<u>316</u>	<u>986</u>
Overprovision in prior years:	
Hong Kong	(9)
The PRC	–
<u>(44)</u>	<u>–</u>
	(9)
Deferred tax	
<u>(50)</u>	<u>(50)</u>
222	927

- (i) Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions for the six months ended 30 June 2020 and 2019.
- (ii) For the six months ended 30 June 2020 and 2019, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.
- (iii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

For the six months ended 30 June 2020 and 2019, the PRC subsidiaries, Dongguan Jia Jun and Guangzhou Weaving, were recognised by the PRC government as "High and New Technology Enterprise" and were eligible to a preferential tax rate of 15%.

6. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited) (Restated)
Amount of inventories recognised as expenses	99,086	137,982
Amortisation of intangible assets	150	128
Depreciation of plant and equipment	10,877	12,317
Depreciation of right-of-use assets	1,707	1,448
Research and development costs (<i>Note (i)</i>)	6,936	10,163
Written-off of plant and equipment	–	2
Government grants (<i>Note (ii)</i>)	(545)	(220)
Gain on disposals of plant and equipment	(33)	–
Loss on disposal of non-current assets classified as held-for-sale	641	–
Operating lease rentals in respect of rented premises	28	472
Staff costs (including directors' emoluments)		
Salaries and allowances	27,235	26,940
Retirement benefits scheme contributions	1,539	2,860
	<hr/>	<hr/>
Total staff costs	28,774	29,800

Notes:

- (i) The research and development costs included staff cost of approximately HK\$4,227,000 (six months ended 30 June 2019: HK\$6,240,000) which has been included in staff costs disclosure above.
- (ii) Government grants were subsidies received from local government authorities and the Group has fulfilled all conditions attached to the subsidies. The grants were recognised as other income upon receipt for the six months ended 30 June 2020 and 2019.

7. (LOSS) EARNINGS PER SHARE

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

Basic (loss) earnings per share

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited) (Restated)
(Loss) earnings		
(Loss) profit for the purpose of basic (loss) earnings per share		
– (Loss) profit for the period attributable to owners of the Company	HK\$(21,498,000)	HK\$2,777,000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	800,000,000	800,000,000

Diluted (loss) earnings per share

Diluted (loss) earnings per share is the same as basic (loss) earnings per share for the six months ended 30 June 2020 and 2019 as there were no dilutive potential ordinary shares outstanding during these periods.

8. DIVIDEND

No interim dividend was paid or proposed during the Period, nor has any interim dividend been proposed since the end of the reporting period (six months ended 30 June 2019: nil).

9. PLANT AND EQUIPMENT

During the Period, the Group acquired plant and equipment of approximately HK\$22,104,000 (six months ended 30 June 2019: HK\$40,907,000).

During the Period, plant and equipment with a net carrying value of approximately HK\$2,046,000 (six months ended 30 June 2019: nil) were disposed of by the Group, for cash proceeds of approximately HK\$2,079,000, resulting in a net gain on disposals of approximately HK\$33,000.

There was no plant and equipment which was written off by the Group during the Period, while plant and equipment with a net carrying value of approximately HK\$2,000 were written off by the Group during the six months ended 30 June 2019.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	79,679	103,401
Less: allowance for impairment loss	<u>(2,027)</u>	<u>(2,061)</u>
	77,652	101,340
Deposits and other receivables	11,129	4,611
Prepayments	<u>7,661</u>	<u>11,635</u>
Total trade and other receivables	<u>96,442</u>	<u>117,586</u>

As at 30 June 2020, the gross amount of trade receivables arising from contracts with customers and operating leases amounted to approximately HK\$77,179,000 (31 December 2019: HK\$101,289,000) and HK\$473,000 (31 December 2019: HK\$51,000) respectively.

The Group does not hold any collateral over its trade and other receivables.

The Group allows a credit period of 0 to 90 days (31 December 2019: 0 to 90 days) to its customers for manufacturing and trading segments. For customers for broadband infrastructure and smart domain segment, the Group does not have a standardised and universal credit period granted to its customers, and the credit period of individual customer is considered on a case-by-case basis and stipulated in the project contract, as appropriate.

The following is an aged analysis of trade receivables, net of allowance for impairment, presented based on the date of delivery/invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
0 to 30 days	37,568	85,210
31 to 90 days	31,593	7,062
91 to 365 days	3,772	3,148
Over 365 days	4,719	5,920
	77,652	101,340

11. NON-CURRENT ASSET CLASSIFIED AS HELD-FOR-SALE

In December 2019, the management resolved to dispose certain machineries with carrying amount of approximately HK\$15,276,000 under manufacturing segment, which are expected to be sold in 2020 and is therefore classified as non-current asset held-for-sale and presented separately in the consolidated statement of financial position.

During the Period, non-current asset classified as held-for-sale with a net carrying value of approximately HK\$5,591,000 were disposed of by the Group (six months ended 30 June 2019: nil), for cash proceeds of approximately HK\$4,950,000, resulting in a net loss on disposals of approximately HK\$641,000.

12. TRADE AND OTHER PAYABLES

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Trade payables	56,278	70,238
Payables for acquisition of plant and equipment	2,775	5,129
Accruals of costs for contract works	349	314
Accrued staff costs	4,028	3,259
Accruals and other payables	10,196	12,565
	73,626	91,505

Included in the Group's accrued staff costs as at 30 June 2020 were accrued directors' emoluments of approximately HK\$270,000 (31 December 2019: nil).

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

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Within 3 months	46,469	65,191
4 to 6 months	2,090	3,472
7 to 12 months	5,988	982
Over 1 year	1,731	593
	56,278	70,238

The credit period on purchases of goods ranged from 30 to 120 days (31 December 2019: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

13. CAPITAL COMMITMENTS

As at 30 June 2020, the Group has contracted for but not provided in the unaudited condensed consolidated financial results in respect of acquisition of plant and equipment of approximately HK\$10,542,000 (31 December 2019: HK\$5,988,000).

14. RELATED PARTY DISCLOSURES

Save as disclosed elsewhere in the unaudited condensed consolidated financial results, the Group has the following related party transaction with its related parties:

(a) Related parties' transactions

During the Period, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited) (Restated)
Revenue from broadband infrastructure construction services		
遵義實地房地產開發有限公司	2,210	2,370
無錫實地房地產開發有限公司	–	359
廣東譽豐地產發展有限公司	122	315
廣州豐實房地產開發有限公司	–	242
惠州市現代城房地產發展有限公司	649	114
武漢平安中信置業有限公司	354	1,089
三亞巨源旅業開發有限公司	86	115
實地地產集團有限公司	51	–
廣州普聚商貿有限公司	2	–

The following balances were outstanding at the end of the reporting period:

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Amounts due from related companies		
遵義實地房地產開發有限公司	6,402	5,517
天津金河灣置業有限公司	–	407
無錫實地房地產開發有限公司	138	141
廣東譽豐地產發展有限公司	213	524
廣州豐實房地產開發有限公司	117	119
惠州市現代城房地產發展有限公司	703	436
武漢平安中信置業有限公司	383	171
深圳富茅房地產開發有限公司	–	45
三亞巨源旅業開發有限公司	37	–

During the six months ended 30 June 2020 and 2019, the Group was granted the right to use two trademarks registered by a 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 9 June 2018. Mr. Chow Hin Keong remained as a director of the Group's principal operating subsidiaries.

As at 30 June 2020, the Group had a loan from immediate holding company of approximately HK\$35,677,000 (31 December 2019: HK\$34,776,000), which is unsecured, bearing interest at a fixed rate of 2% per annum and contain a repayable on demand clause, and had interest expenses of approximately HK\$901,000 (for the six months ended 30 June 2019: nil) to the immediate holding company.

(b) Compensation of key management personnel

The directors of the Company considered that they are the only key management personnel of the Group for the periods ended 30 June 2020 and 2019.

The emoluments of the directors of the Company 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 long-term borrowing up to HK\$38,000,000 with an interest rate of 2% per annum for 24 months from the first withdrawal date in 2019. As at 30 June 2020, the Group has available unutilised facilities of approximately HK\$80,000 (31 December 2019: HK\$450,000).

15. CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: nil).

16. BUSINESS COMBINATION UNDER COMMON CONTROL

On 5 March 2019, Brainhole Technology Investments Limited, an indirectly wholly-owned subsidiary of the Company, has entered into a sale and purchase agreement with Guangzhou Chong Dong, a company beneficially wholly-owned by Mr. Zhang, for the purchase of its entire interest of Guangzhou Weaving, for a consideration of RMB68,000,000 (equivalent to approximately HK\$78,200,000), subject to profit guarantee adjustment.

The acquisition was completed on 12 September 2019, and Guangzhou Weaving and its subsidiaries have become subsidiaries of the Group since then. As Guangzhou Weaving and the Company are ultimately controlled by Mr. Zhang, the acquisition of Guangzhou Weaving has been accounted for as business combination under common control.

The condensed consolidated statement of financial position as at 30 June 2019, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2019 have been restated to include the assets and liabilities and the operating results of Guangzhou Weaving Group as if this acquisition had been completed since 27 April 2018, which is the date when Guangzhou Weaving Group and the Company first came under the control of Mr. Zhang.

The summary of restated results of operations of the Group for the six months ended 30 June 2019 and the financial position as at 30 June 2019 are set out below:

	The Group HK\$'000 (as previously reported)	Guangzhou Weaving Group HK\$'000	Effect of adoption of HKFRS16 HK\$'000	Inter- company eliminations HK\$'000	The Group HK\$'000 (Restated)
Results of operations for the six months ended 30 June 2019					
Revenue	147,097	30,675	–	–	177,772
Cost of sales	(118,308)	(19,713)	39	–	(137,982)
Gross profit	28,789	10,962	39	–	39,790
Other income	441	326	–	–	767
Selling and distribution costs	(6,301)	(8)	–	–	(6,309)
Administrative expenses	(20,265)	(10,129)	–	–	(30,394)
Finance costs	(75)	(61)	–	–	(136)
Profit before tax	2,589	1,090	39	–	3,718
Income tax expenses	(643)	(284)	–	–	(927)
Profit for the period	1,946	806	39	–	2,791
Other comprehensive expense for the period					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange difference arising on translation of foreign operations	(717)	(214)	(4)	–	(935)
Total comprehensive income for the period	1,229	592	35	–	1,856

	The Group <i>HK\$'000</i> (as previously reported)	Guangzhou Weaving Group <i>HK\$'000</i>	Effect of adoption of HKFRS16 <i>HK\$'000</i>	Inter- company eliminations <i>HK\$'000</i>	The Group <i>HK\$'000</i> (Restated)
Profit for the period attributable to:					
– Owners of the Company	1,946	792	39	–	2,777
– Non-controlling interests	–	14	–	–	14
	<u>1,946</u>	<u>806</u>	<u>39</u>	<u>–</u>	<u>2,791</u>
Total comprehensive income attributable to:					
– Owners of the Company	1,229	578	35	–	1,842
– Non-controlling interests	–	14	–	–	14
	<u>1,229</u>	<u>592</u>	<u>35</u>	<u>–</u>	<u>1,856</u>
Earnings per share					
– Basic and diluted (<i>HK cents</i>)	0.24	0.10	0.01	–	0.35

	The Group HK\$ '000 (as previously reported)	Guangzhou Weaving Group HK\$ '000	Effect of adoption of HKFRS 16 HK\$ '000	Inter- company eliminations HK\$ '000	The Group HK\$ '000 (Restated)
Financial position as at 30 June 2019					
Non-current assets					
Plant and equipment	160,725	26,188	-	-	186,913
Finance lease receivable	-	1,027	-	-	1,027
Intangible asset	-	2,462	-	-	2,462
Right-of-use assets	3,498	3,016	(230)	-	6,284
Deferred tax asset	138	410	-	-	548
Prepayment for plant and equipment	9,553	-	-	-	9,553
	<u>173,914</u>	<u>33,103</u>	<u>(230)</u>	<u>-</u>	<u>206,787</u>
Current assets					
Inventories	43,314	776	-	-	44,090
Finance lease receivable	-	308	-	-	308
Trade and other receivables	91,333	33,311	-	-	124,644
Contract assets	-	125	-	-	125
Amount due from related companies	-	2,385	-	-	2,385
Tax recoverable	3,067	128	-	-	3,195
Bank balances and cash	32,982	5,372	-	-	38,354
	<u>170,696</u>	<u>42,405</u>	<u>-</u>	<u>-</u>	<u>213,101</u>
Current liabilities					
Trade and other payables	49,457	20,810	-	-	70,267
Lease liabilities	-	1,332	-	-	1,332
Amount due to immediate holding company	13,068	-	-	-	13,068
Deferred income	225	-	-	-	225
Tax payables	-	182	-	-	182
	<u>62,750</u>	<u>22,324</u>	<u>-</u>	<u>-</u>	<u>85,074</u>
Net current assets	<u>107,946</u>	<u>20,081</u>	<u>-</u>	<u>-</u>	<u>128,027</u>
Total assets less current liabilities	<u>281,860</u>	<u>53,184</u>	<u>(230)</u>	<u>-</u>	<u>334,814</u>

	The Group HK\$'000 (as previously reported)	Guangzhou Weaving Group HK\$'000	Effect of adoption of HKFRS 16 HK\$'000	Inter- company eliminations HK\$'000	The Group HK\$'000 (Restated)
Non-current liabilities					
Lease liabilities	1,716	1,732	-	-	3,448
Deferred tax liability	45	296	-	-	341
Deferred income	1,375	-	-	-	1,375
	<u>3,136</u>	<u>2,028</u>	<u>-</u>	<u>-</u>	<u>5,164</u>
Net assets	<u>278,724</u>	<u>51,156</u>	<u>(230)</u>	<u>-</u>	<u>329,650</u>
Capital and reserves					
Share capital	8,000	13,594	-	(13,594)	8,000
Reserves	270,724	37,562	(230)	13,594	321,650
	<u>278,724</u>	<u>51,156</u>	<u>(230)</u>	<u>-</u>	<u>329,650</u>

17. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

The unaudited condensed consolidated financial results were approved and authorised for issue by the Board on 28 August 2020.

18. EVENTS AFTER THE REPORTING PERIOD

There was no significant event that took place after the reporting period and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

(i) *Semiconductor business*

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, due to the outbreak of the coronavirus disease (“COVID-19”), the economic activities have been slowed down globally. The public health measures put in place to prevent the spread of the COVID-19 pandemic has also caused temporary suspension of production of semiconductors for about one month after the Chinese New Year.

Despite the impact of the COVID-19 pandemic diminishes gradually in the PRC, the Group’s customers of semiconductors have still slowed down their new order placing during the Period, due to the reduction of global economic activities caused by the outbreak of COVID-19 and the growing tension of the global trade dispute and tariff battle between China and the United States. As a result, the Group’s revenue from manufacturing and trading of semiconductors for the Period dropped by approximately 45.1% as compared to the corresponding period of the previous financial year.

During the Period, the revenue from manufacturing business of semiconductors has recorded a decrease of approximately 45.6% as compared to the corresponding period of the previous financial year. In addition to its manufacturing business, the Group continued to operate its trading business during the Period, primarily to supplement its sales of self-manufactured products. The Group acts as a solution kits integrator and is engaged in trading of semiconductors that its customers specifically require. These semiconductors, however, are not manufactured by the Group. The product mix required by customers varies from time to time. During the Period, the outbreak of COVID-19 and continuing effect of global trade dispute and tariff battle also hit the trading operations and the revenue from trading of semiconductors dropped by approximately 44.0% as compared to the corresponding period of previous financial year.

During the Period, the Group continued its ongoing efforts in research and development and innovations. Regarding the semiconductors business, the Group has registered 47 patent rights in the PRC in respect of its process innovation and product innovation as at 30 June 2020. The Group's principal subsidiary of semiconductors business, Dongguan Jia Jun, continued to enjoy the status of High and New-Technology Enterprise and is entitled to a reduced PRC Enterprise Income Tax rate at 15%.

The number of customers of the Group's semiconductors business increased from 165 as at 30 June 2019 to 170 as at 30 June 2020.

(ii) *Broadband infrastructure and smart domain business*

In September 2019, the Group completed the acquisition of Guangzhou Weaving, and therefore extended its business portfolio to broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities) in the PRC. Its smart domain solution includes hardware for security and identification purposes, software for residence management, energy saving and community services.

During the Period, the outbreak of COVID-19 also led to the temporary suspension of work of Guangzhou Weaving Group. With the effective control of the pandemic in the PRC, the operation of Guangzhou Weaving Group has been resumed shortly. Due to its business nature, the new business of the Group including the broadband infrastructure construction and the provision of integrated solution for smart domain application are relatively less susceptible to the COVID-19 pandemic than semiconductors business in 2020.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of approximately HK\$111.6 million during the Period, as compared to the revenue of approximately HK\$177.8 million for the six months ended 30 June 2019. The decrease in revenue was approximately HK\$66.2 million or 37.2% when compared to the previous year. It was primarily attributable to the decrease in the sales of semiconductors business as a result of (i) the outbreak of COVID-19, leading to the reduction in the global economic activities and the slowdown in orders from customers; and (ii) the continuing effect of global trade dispute and tariff battle.

The outbreak of COVID-19 and the slowdown of customers' order hit both the manufacturing and trading business of semiconductors. During the Period, the Group recorded revenue of approximately HK\$55.8 million from sales of its self-manufactured semiconductors, representing a decrease of approximately HK\$46.9 million or 45.6% as compared to that of approximately HK\$102.7 million for the same period of the previous financial year. The production volume of the Group's self-manufactured semiconductors witnessed an overall decrease during the Period when compared to the same period of the previous financial year.

The Group's trading of semiconductors primarily complements sales of self-manufactured semiconductors when it provides solution kits services to its customers. During the Period, the Group's revenue derived from its trading of semiconductors amounted to approximately HK\$24.9 million, representing a decrease of approximately HK\$19.5 million or 44.0% as compared to that of approximately HK\$44.4 million for the same period of the previous financial year.

The operating results of Guangzhou Weaving Group was consolidated to the Group since 27 April 2018 when the common control by Mr. Zhang firstly existed. Guangzhou Weaving Group contributed revenue of approximately HK\$30.9 million for the Period, while compared to the revenue of approximately HK\$30.7 million for the six months ended 30 June 2019.

Gross profit and gross profit margin

The Group's gross profit amounted to approximately HK\$12.5 million for the Period, representing a decrease of approximately HK\$27.3 million or 68.6% from approximately HK\$39.8 million for the same period of the previous financial year. It was mainly attributable to the decrease in revenue and gross profit margin of semiconductors business, which led to the gross profit of semiconductors business having decreased from approximately HK\$28.8 million for the six months ended 30 June 2019 to approximately HK\$2.8 million for the Period.

Moreover, Guangzhou Weaving Group contributed gross profit of approximately HK\$9.7 million for the Period, while recorded gross profit of approximately HK\$11.0 million for the same period of the previous financial year.

The Group's overall gross profit margin for the Period was approximately 11.2%, representing a decrease of approximately 11.2 percentage points as compared with gross profit margin of approximately 22.4% for the six months ended 30 June 2019. Such decrease was primarily due to the decrease of gross profit margin of semiconductor business, which decreased from approximately 19.6% for the six months ended 30 June 2019 to approximately 3.4% for the Period. This was mainly attributable to the public health measures put in place to prevent the spread of the COVID-19 pandemic which has caused temporary suspension of production of semiconductors for about one month after the Chinese New Year. The anti-epidemic measures such as the quarantine, social distancing and other pandemic containment measures have also reduced the Group's productivity and incurred incremental costs to the Group. Furthermore, there were also increase in labour costs driven by the labour shortage for the manufacture of semiconductors in Dongguan, Guangdong, the PRC and the additional costs incurred for the new quality assurance system to cope with customers' new technological standard and requirements on semiconductors.

The gross profit margin of Guangzhou Weaving Group was recorded at approximately 31.4% and 35.8% respectively for the Period and the same period of the previous financial year. The decrease was mainly attributable to more commission cost being incurred when facing the downward pressure and adverse impact to the economic activities brought from the outbreak of COVID-19.

Selling and Distribution Costs

The Group's selling and distribution costs for the Period was approximately HK\$3.6 million, representing a decrease of approximately HK\$2.7 million or 43.2% from approximately HK\$6.3 million for the six months ended 30 June 2019. The amount mainly represented the selling and distribution costs of semiconductors business and such decrease was in line with the change of revenue of semiconductors during the Period as discussed above.

Administrative Expenses

Administrative expenses mainly included staff costs, professional fees, depreciation, office expenses, rental expenses, travelling expenses, entertainment expenses, investor relation expenses and other miscellaneous operating expenses.

The Group's administrative expenses for the Period was approximately HK\$30.7 million, increased by approximately HK\$0.3 million or 1.1% as compared to that of approximately HK\$30.4 million for the six months ended 30 June 2019.

Income tax expenses

The Group's income tax expenses for the Period was approximately HK\$0.2 million, as compared to income tax expense of approximately HK\$0.9 million for the six months ended 30 June 2019. Such decrease of income tax expense was primarily attributable to decrease in operating profits from semiconductors business due to the factors discussed above.

(Loss) Profit for the Period

As a result of the foregoing, the Group's net loss for the Period was approximately HK\$21.5 million, compared to the net profit of approximately HK\$2.8 million for the six months ended 30 June 2019.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

The Group's outstanding capital commitments as at 30 June 2020 amounted to approximately HK\$10.5 million (31 December 2019: HK\$6.0 million). Such commitments primarily related to the broadband infrastructure construction and purchase of equipment and machinery to meet the demand of the market 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 30 June 2020, the Group had no outstanding bank borrowings.

Please refer to note 12 to the unaudited condensed consolidated financial results of the Group in this report for the ageing analysis in respect of the trade payables of the Group as at 30 June 2020 and 31 December 2019.

The Group's gearing ratio as at 30 June 2020 and 31 December 2019, which were calculated by dividing its total bank borrowings by its total equity as at those dates, were both nil due to the absence of bank 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 30 June 2020, the Group did not have any pledged asset (31 December 2019: nil).

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

During the Period, the Group had not made any significant investments or material acquisitions and disposals of subsidiaries.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: nil).

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 six months ended 30 June 2020 and 2019, approximately 39.5% and 52.5%, 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 8.2% and 17.6%, respectively, of purchases were not 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 30 June 2020 and 31 December 2019 are as follows:

	Assets		Liabilities	
	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
United States dollars ("US\$")	37,189	47,563	3,236	4,998
Renminbi ("RMB")	729	2,277	76	74
Total:	37,918	49,840	3,312	5,072

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 30 June 2020, the Group had a workforce of 458 full-time employees (including three executive Directors but excluding three independent non-executive Directors) of whom approximately 96.5% were employed in the PRC and approximately 3.5% in Hong Kong. The Group's staff costs (including Directors' emoluments) for the six months ended 30 June 2020 and 2019 amounted to approximately HK\$28.8 million and HK\$29.8 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, broadband infrastructure industry and smart domain 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.

RESERVES

Movements in the reserves of the Group for the Period are set out in the unaudited condensed consolidated statement of changes in equity set out above.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (30 June 2019: nil).

BUSINESS PROSPECT

Looking ahead to the second half of 2020, the global economy is expected to face the uncertainties aroused by COVID-19 and the growing tension of the global trade dispute and tariff battle between China and the United States. It is expected that the reduction of global economic activities would continue to affect the customer orders of semiconductors in the second half of 2020.

The semiconductor industry and its downstream industries are characterized by rapid technological changes and evolving industry standards and an effective quality assurance system is critical to the success of the Group. The Group intends to continue its research and development to strengthen its production process and quality control.

The management will continue to assess the impact of the COVID-19 pandemic and closely monitor the market condition of semiconductors, including the recovery progress of customer demand, the increasing technical standard requested by customers and the current industry standard of semiconductors for the production of electronic devices with more advanced technological functions.

On the other hand, after the completion of the acquisition of Guangzhou Weaving in September 2019, the Group has expanded its business to smart living sector. Guangzhou Weaving is principally engaged in broadband construction infrastructure and the provision of integrated solutions for smart domain application in the PRC, which include smart home, smart campus and smart communities. Under the China's state policies, technological innovation and development are highly encouraged and supported. At present, China maintains a leading position in 5G network technology in the world, and the full implementation of 5G network in commercial and civilian applications has already commenced. It is foreseeable that artificial intelligence, Internet of Things, cloud computing and big data processing will be benefited continuously from the PRC government's dedicated support in its development. The technological innovation will speed up and further stimulate the growth and development of technological application in the smart living sector.

Furthermore, the COVID-19 pandemic has enhanced the public awareness on hygiene and social distancing, especially in the PRC. With the effective use of contactless solution, the safety of living environment can be promoted and protected. The application of various smart technology has also widely extended from home to communities and other application scenarios. The management believes, this pandemic will bring another opportunity to facilitate the rapid development of smart technology application. In view of these, the Group will capitalise the fast-growing demand of technological application in the smart living sector.

In the future, Guangzhou Weaving is dedicated to be a hardware solution integrator for smart domain application. Hence, the Group will keep searching for other acquisition or investment targets, primarily focusing on areas of smart living related technology and electronic parts for artificial intelligence and Internet of Things, which could have potential business synergy with Guangzhou Weaving and semiconductor business, as well as other area of technology which could improve the living standard of human beings.

Looking forward, the Group is vigorous to explore other possible business opportunities, and one of the potential opportunities is to develop smart campus in the PRC, an all-in-one technological innovation industrial parks, that supports and pilots application of innovative solutions, drive new technology development and enhance collaboration of high technology companies. The Group possesses strong management team with high technology expertise and network in the field of mobile telecommunication, networking and smart city. Leveraging on its well-established relationship with telecom carriers and property developers (such as Seedland and R&F Properties), the Group aims to assist local government to build up the smart campus from scratch, including building the innovation centers, inserting necessary infrastructure and technological support. The management believes, with the supportive preferential policies from local government, the smart campus can act as an incubator to attract talents and enterprises from nationwide and worldwide to start their research and development and production line of smart technologies within the parks. The Group can enjoy the synergy created together with the incubatees, the property developers and the local government.

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

As at 30 June 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meanings 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)	599,658,000 Shares (L)	74.96

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) Mr. Zhang Liang, Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 30 June 2020, through Yoho Bravo Limited which is wholly-owned by him. China Galaxy International Finance (Hong Kong) Co., Limited and its holding companies have a security interest in the said 599,658,000 Shares as at 30 June 2020.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2020, the interests and short positions of substantial Shareholders and other persons (other than Directors or chief executive of the Company) in the Shares or 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 (Note 2)	Beneficial interest	599,658,000 Shares (L)	74.96

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) Mr. Zhang Liang, Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 30 June 2020, through Yoho Bravo Limited which is wholly-owned by him. China Galaxy International Finance (Hong Kong) Co., Limited and its holding companies have a security interest in the said 599,658,000 Shares as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

LIST OF DIRECTORS

As at the date of this report, the Board comprises the following Directors:

Executive Directors

Mr. Zhang Liang Johnson (*Chairman*)
Mr. Tong Wen-hsin
Ms. Wan Duo

Independent Non-Executive Directors

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

CHANGES IN INFORMATION OF DIRECTORS

On 11 November 2019, Mr. Tong Wen-hsin was appointed as director of Brainhole Technology Investments Limited, which is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company.

On 11 December 2019, Mr. Tong Wen-hsin was appointed as director of Tech Elite Investments Limited, which is a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company.

On 16 January 2020, Mr. Zhang Liang Johnson, Mr. Tong Wen-hsin and Ms. Wan Duo were appointed as directors of Brainhole Technology Industrial Development Holdings Limited, which is a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company.

On 20 April 2020, Mr. Zhang Liang Johnson, Mr. Tong Wen-hsin and Ms. Wan Duo were appointed as directors of Brainhole Technology Industrial Development Limited, which is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company.

On 27 May 2020, Mr. Tong Wen-hsin was appointed as director of Guangzhou Brainhole Weaving, which is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the Model Code throughout 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 fulltime employment of the Company) was entered into or was subsisting during the Period.

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 interests with the Group during the Period.

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.

During the Period, the Company has complied with the code provisions set out in the CG Code.

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”).

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.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2020.

AUDIT COMMITTEE

The Company established an audit committee on 23 September 2015 with written terms of reference in compliance with the Listing Rules.

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. 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, who has appropriate professional qualifications and experience in accounting matters, is the chairperson of the audit committee.

The audit committee has reviewed this report and the Group's unaudited condensed consolidated financial results for the Period and is of the opinion that the preparation of such results complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DEFINITIONS

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

"Board"	the board of Directors
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Company"	Brainhole Technology Limited 脑洞科技有限公司, a company incorporated as an exempted company with limited liability in the Cayman Islands
"Director(s)"	the director(s) of the Company
"Dongguan Jia Jun"	東莞市佳駿電子科技有限公司(Dongguan Jia Jun Electronic Technology Company Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries

“Guangzhou Brainhole Weaving”	Guangzhou Brainhole Weaving Communications Telecommunications Technology Limited (廣州腦洞織網通訊科技有限公司*), a company established in the PRC with limited liability
“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 with limited liability
“Guangzhou Weaving Group”	Guangzhou Weaving and its subsidiary
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“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
“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
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

“Period”	for the six months ended 30 June 2020
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

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

By order of the Board
Brainhole Technology Limited
Zhang Liang Johnson
Chairman and executive Director

Hong Kong, 28 August 2020