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BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the Period together with the audited comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**261,809**	346,673
Cost of sales		**(228,294)**	(285,686)
Gross profit		**33,515**	60,987
Other income		**7,888**	1,294
Selling and distribution costs		**(7,705)**	(11,222)
Administrative expenses		**(60,566)**	(72,164)
Impairment loss on inventories		**–**	(10,274)
Impairment loss on plant and equipment and right-of-use assets		**(34,879)**	(22,501)
Impairment loss on non-current assets classified as held for sale		**(2,011)**	–
Finance costs		**(3,355)**	(728)
Loss before tax		**(67,113)**	(54,608)
Income tax credit	*4*	**8,358**	4,684
Loss for the year	*5*	**(58,755)**	(49,924)
Other comprehensive income (expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**7,201**	(4,250)
Total comprehensive expense for the year attributable to owners of the Company		**(51,554)**	(54,174)

		Year ended 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
(Loss) profit for the year attributable to:			
– Owners of the Company		**(58,755)**	(49,938)
– Non-controlling interests		**–**	14
		(58,755)	(49,924)
Total comprehensive (expense) income attributable to:			
– Owners of the Company		**(51,554)**	(54,188)
– Non-controlling interests		**–**	14
		(51,554)	(54,174)
Loss per share			
– Basic and diluted *(HK cents)*	*6*	**(7.34)**	(6.24)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Non-current assets			
Plant and equipment		**122,464**	145,286
Right-of-use assets		**6,987**	4,526
Finance lease receivable		**477**	842
Intangible assets		**2,425**	2,515
Deferred tax assets		**14,261**	5,092
Prepayment for plant and equipment		**4,687**	20,547
		151,301	178,808
Current assets			
Inventories		**28,016**	30,847
Finance lease receivable		**419**	322
Trade and other receivables	*7*	**97,971**	117,586
Contract assets		**1,487**	784
Amounts due from related companies		**9,162**	7,360
Tax recoverable		**485**	3,037
Bank balances and cash		**74,150**	56,018
		211,690	215,954
Non-current assets classified as held for sale		**7,349**	15,276
		219,039	231,230
Current liabilities			
Trade and other payables	*8*	**64,588**	91,505
Lease liabilities		**3,110**	2,535
Deferred income		**722**	300
Consideration payable	*9*	**–**	51,514
Tax payables		**–**	–
Loan from an immediate holding company		**37,331**	34,776
		105,751	180,630
Net current assets		**113,288**	50,600
Total assets less current liabilities		**264,589**	229,408

		As at 31 December	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Non-current liabilities			
Lease liabilities		**4,685**	2,311
Deferred tax liability		**340**	413
Deferred income		**4,925**	1,804
Loan from an immediate holding company		**1,941**	–
Loans from related companies		**66,060**	–
		77,951	4,528
		186,638	224,880
Capital and reserves			
Share capital		**8,000**	8,000
Reserves		**178,638**	216,880
		186,638	224,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Brainhole Technology Limited 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 issued shares had been listed on the Stock Exchange since 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, a company incorporated in the BVI with limited liability and its ultimate controlling party is Mr. Zhang.

The Company is principally engaged in investment holding and the principal activities of its subsidiaries are the manufacturing and trading of electronic and electrical parts and components, and provision of services for broadband infrastructure construction services, promotion of broadband services, smart domain solution services and operating leases for broadband infrastructure.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards ("HKFRSs") and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendment to HKFRS 16	COVID-19-Related Rent Concessions

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts and related Amendments[4]
Amendments to HKFRS 3	Reference to Conceptual Framework[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5(2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 cycle[3]
Accounting Guideline 5 (Revised)	Merger accounting for common control combination[5]

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

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

[3] Effective for annual periods beginning on or after 1 January 2022.

[4] Effective for annual periods beginning on or after 1 January 2023.

[5] Effective for common control combinations that occur on or after beginning of the first annual reporting period on or after 1 January 2022.

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

3. REVENUE 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 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.

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 different risks and returns. Accordingly, the Group's operating activities are attributable to manufacturing, trading and broadband infrastructure and smart domain segments.

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

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Manufacturing of electronic goods	**122,169**	183,538
Trading of electronic goods	**70,671**	95,820
Broadband infrastructure and smart domain:		
Broadband infrastructure construction services	**39,006**	36,672
Commission income	**13,607**	13,736
Provision of smart domain solution services	**12,320**	15,845
	257,773	345,611
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	**4,036**	1,062
	261,809	346,673

Disaggregation of revenue from contracts with customers by timing of recognition

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Timing of revenue recognition		
At a point in time	**218,767**	308,939
Over time	**39,006**	36,672
Total revenue from contracts with customers	**257,773**	345,611

Transaction price allocated to the remaining performance obligations

The transaction price allocated to the performance obligation that are unsatisfied (or partially unsatisfied) as at 31 December 2020 and 2019 and the expected timing of recognition are, as follow:

	As at 31 December	
	2020	2019
	HK$'000	*HK$'000*
Within one year	**18,555**	18,606
More than one year	**9,309**	12,675
	27,864	31,281

The above amounts represent revenue expected to be recognised in the future from broadband infrastructure construction services.

Segment revenues and results

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

	Year ended 31 December							
	Manufacturing		Trading		Broadband infrastructure and smart domain		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**122,169**	183,538	**70,671**	95,820	**68,969**	67,315	**261,809**	346,673
Segment (loss) profit	**(36,065)**	(17,926)	**5,734**	11,656	**4,692**	3,276	**(25,639)**	(2,994)
Unallocated income							**5,131**	488
Unallocated expenses							**(46,605)**	(52,102)
Loss before tax							**(67,113)**	(54,608)

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

	As at 31 December	
	2020	2019
	HK$'000	*HK$'000*
Segment assets		
Manufacturing	**174,083**	236,533
Trading	**21,095**	29,521
Broadband infrastructure and smart domain	**128,917**	83,941
Unallocated	**46,245**	60,043
Total assets	**370,340**	410,038
Segment liabilities		
Manufacturing	**15,915**	37,855
Trading	**11,485**	20,519
Broadband infrastructure and smart domain	**40,726**	31,428
Unallocated	**115,576**	95,356
Total liabilities	**183,702**	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 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, certain lease liabilities, tax payables, deferred tax liability, consideration payable, loans from immediate holding company and loans from related companies.

4. INCOME TAX CREDIT

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**15**	–
The PRC	**399**	307
	414	307
Under (over) provision in prior years:		
Hong Kong	**–**	80
The PRC	**(306)**	(462)
	(306)	(382)
Deferred tax	**(8,466)**	(4,609)
	(8,358)	(4,684)

(a) 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 either financial years.

(b) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime for the year ended 31 December 2020, while no provision for Hong Kong Profits Tax has been provided as there is no assessable profit arised in 2019.

(c) Under the Law of the PRC 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 year ended 31 December 2019, the PRC subsidiaries, Dongguan Jia Jun Electronic Technology Company Limited ("Dongguan Jia Jun") and Guangzhou Weaving, were recognised by the PRC government as "High and New Technology Enterprises" ("HNTE") and were eligible to a preferential tax rate of 15%. For the year ended 31 December 2020, Guangzhou Weaving successfully extended its HNTE program to 11 December 2023 while Dongguan Jia Jun is subject to a tax rate of 25%.

5. LOSS FOR THE YEAR

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

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Emoluments of the Directors and chief executive		
Salaries and allowances	**3,513**	1,730
Retirement benefits scheme contributions	**18**	6
Other staff costs:		
Salaries and allowances	**52,704**	51,448
Retirement benefits scheme contributions	**2,922**	5,720
Total staff costs	**59,157**	58,904
Auditor's remuneration	**786**	836
Amount of inventories recognised as expenses	**179,340**	243,176
Amortisation of intangible assets	**238**	287
Depreciation of plant and equipment	**22,647**	26,060
Depreciation of right-of-use assets	**3,376**	3,157
Research and development costs *(note (i))*	**12,955**	17,213
(Reversal of impairment loss) impairment loss recognised on trade receivables, net	**(203)**	1,345
(Reversal of impairment loss) impairment loss recognised on contract assets	**(1)**	5
Gain on disposal of plant and equipment	**(55)**	–
Impairment loss recognised on plant and equipment	**34,483**	–
Impairment loss recognised on right-of-use assets	**396**	–
Loss on disposal on non-current assets classified as held for sale	**759**	–
Write-off of plant and equipment	**3**	4
Write-off of trade receivables	**–**	1,900
Write-off of contract assets	**–**	82

Note:

(i) Included in research and development costs was staff cost of approximately HK$7,886,000 (2019: HK$9,136,000) which has been included in staff costs disclosure above.

6. LOSS PER SHARE

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

	Year ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share	**(58,755)**	(49,938)

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**800,000**	800,000

Diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2020 and 2019.

7. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	HK$'000	*HK$'000*
Receivables at amortised cost comprise:		
Trade receivables	**90,332**	103,401
Less: allowance for impairment loss of trade receivables	**(1,965)**	(2,061)
	88,367	101,340
Deposits and other receivables	**5,847**	4,611
Prepayments	**3,757**	11,635
Total trade and other receivables	**97,971**	117,586

As at 31 December 2020, the gross amount of trade receivables arising from contracts with customers and operating lease amounted to approximately HK$87,728,000 (2019: HK$101,289,000) and HK$639,000 (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 to its customers for manufacturing and trading segments. For customers for broadband infrastructure and smart domain segment, various credit period is granted to its customers, and the credit period of individual customer is considered on mutually agreed 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 Period.

	As at 31 December	
	2020	2019
	HK$'000	*HK$'000*
0 to 30 days	**41,710**	85,210
31 to 90 days	**32,462**	7,062
91 to 365 days	**8,930**	3,148
Over 365 days	**5,265**	5,920
	88,367	101,340

8. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	HK$'000	*HK$'000*
Trade payables	**46,131**	70,238
Payables for acquisition of plant and equipment	**211**	5,129
Accruals of costs for contract works	**610**	314
Accrued staff costs	**4,754**	3,259
Payable for commission	**1,925**	2,515
Accruals and other payables	**10,957**	10,050
	64,588	91,505

Included in other payables, amount of approximately HK$380,000 represented interest payable to loan from an immediate holding company as at 31 December 2020 (2019: nil).

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

	As at 31 December	
	2020	2019
	HK$'000	*HK$'000*
Within 3 months	**32,602**	65,191
4 to 6 months	**6,263**	3,472
7 to 12 months	**3,684**	982
Over 1 year	**3,582**	593
	46,131	70,238

The credit period on purchases of goods ranged from 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

9. CONSIDERATION PAYABLE

During the year ended 31 December 2019, pursuant to the terms of the sale and purchase agreement for the acquisition of Guangzhou Weaving, Guangzhou Chong Dong has agreed to provide a profit guarantee to the Group in relation to the financial performance of Guangzhou Weaving Group for the years ended 31 December 2018 and 2019. If the audited consolidated net profit after tax attributable to owners of Guangzhou Weaving falls short of the guaranteed profit of RMB10,000,000 in aggregate for the years ended 31 December 2018 and 2019, the consideration for the acquisition of Guangzhou Weaving should be adjusted based on the actual profit in agreed calculation formula.

According to the audited consolidated financial statements of the Guangzhou Weaving Group for the financial years ended 31 December 2018 and 31 December 2019, which was prepared in accordance with the accounting principles generally accepted in the PRC, the aggregate consolidated net profit after tax of the Guangzhou Weaving Group for the two years ended 31 December 2019 amounted to approximately RMB6,786,000 and was less than the guaranteed profit.

As a result, the consideration for the acquisition of Guangzhou Weaving was adjusted downward pursuant to the terms of the sale and purchase agreement and the adjusted consideration was approximately RMB46,145,000 equivalent to approximately HK$51,514,000 which was determined by an independent valuer. For more details of the adjusted consideration, please refer to the announcement of the Company dated 20 April 2020.

As at 31 December 2019 and date of settlement, the Directors consider that the change in fair value of the consideration payable is insignificant. The consideration payable has been fully settled by cash on 10 December 2020.

10. IMPACT OF COVID-19

The Group's business operations have been disrupted in early 2020 by the outbreak of COVID-19 and the resulting temporary suspension of factories and offices in the PRC. Due to the effective control of the COVID-19 pandemic in the PRC during 2020, the business operations have been resumed shortly.

Given the dynamic circumstance and uncertainties of the COVID-19 situation, the Group will keep continuous attention on the development of the COVID-19 situation and react actively to its impact on the operation and financial position of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

(i) Semiconductor business

The strong adoption across a wide range of high technology from 5G networks, artificial intelligence, internet of things, cloud computing and big data processing around the world in the last two years drives the need of technologies with higher power efficiency, speed and more complex functionalities. This stimulated the global market demand for the semiconductor industry.

In general, semiconductor manufacturing consists of a series of processes, comprising of design of the integrated circuit ("IC"), preliminary testing of the viability of the design, wafer fabrication, assembly and packaging and final testing. 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. The assembly and packaging are one of and in the downstream of the whole manufacturing process transforming semiconductor chips into functional devices which are used in a variety of end-use applications.

The design of IC and wafer fabrication are dominated by several giant multinational companies, while the market of assembly and packaging of discrete semiconductors included large players and smaller local players. Therefore, the Group, which is in the downstream of the supply chain of semiconductors, is facing more keen competition.

During the Period, due to the outbreak of 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 the Group's production of semiconductors for about one month after the Chinese New Year.

Despite effective control of the COVID-19 pandemic in the PRC in the second half of 2020, the Group's customers of semiconductors generally slowed down their new order placing during the Period. Moreover, due to the continuous tension of the global trade dispute and tariff battle between China and the United States as well as the impact COVID-19 in the rest of the world, the recovery pace of the orders from overseas customers remained uncertain. As a result, the Group's revenue from manufacturing and trading of semiconductors for the Period dropped by approximately 31.0% as compared to the previous financial year.

During the Period, the revenue from the manufacturing business of semiconductors has recorded a decrease of approximately 33.4% as compared to 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 26.2% as compared to the 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 53 patent rights in the PRC in respect of its process innovation and product innovation as at 31 December 2020.

The number of customers of the Group's semiconductors business increased from 169 as at 31 December 2019 to 173 as at 31 December 2020.

(ii) Broadband infrastructure and smart domain business

By completing the acquisition of Guangzhou Weaving in September 2019, the Group 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.

The outbreak of COVID-19 also led to the temporary suspension of work of Guangzhou Weaving Group. With the effective control of the COVID-19 pandemic in the PRC, the operation of Guangzhou Weaving Group has been resumed shortly. Due to its business nature, the broadband infrastructure construction and the provision of integrated solution for smart domain application were relatively less susceptible to the impact of the COVID-19 pandemic than the semiconductors business in 2020. During the Period, the Group successfully partnered with the domestic high-tech leading players to explore the business opportunities on providing the smart domain solution together, especially for the smart campus projects. As smart living has become increasingly popular, the Group believes that the contribution from this business segment can continue to enhance Shareholders' equity and diversify the Group's risk portfolio.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of approximately HK$261.8 million during the Period, as compared to the revenue of approximately HK$346.7 million for the year ended 31 December 2019. The decrease in revenue was approximately HK$84.9 million or 24.5% 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$122.2 million from sales of its self-manufactured semiconductors, representing a decrease of approximately HK$61.3 million or 33.4% as compared to that of approximately HK$183.5 million for the year ended 31 December 2019. The production volume of the Group's self-manufactured semiconductors witnessed an overall decrease during the Period when compared to 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$70.7 million, representing a decrease of approximately HK$25.1 million or 26.3% as compared to that of approximately HK$95.8 million for the year ended 31 December 2019.

On the other hand, the revenue of broadband infrastructure and smart domain segment contributed by Guangzhou Weaving Group amounted to approximately HK$69.0 million during the Period, compared to the revenue of approximately HK$67.3 million for the year ended 31 December 2019. The increase of approximately HK$1.7 million or 2.5% is mainly because the broadband infrastructure and smart domain segment was less susceptible to the COVID-19 pandemic in 2020.

Gross profit and gross profit margin

The Group's gross profit amounted to approximately HK$33.5 million for the Period, representing a decrease of approximately HK$27.5 million or 45.1% from approximately HK$61.0 million for the year ended 31 December 2019. 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$38.3 million for the year ended 31 December 2019 to approximately HK$12.5 million for the Period.

Moreover, Guangzhou Weaving Group contributed gross profit of approximately HK$21.0 million for the Period, while recorded gross profit of approximately HK$22.7 million for the year ended 31 December 2019.

The Group's overall gross profit margin for the Period was approximately 12.8%, representing a decrease of approximately 4.8 percentage points as compared with gross profit margin of approximately 17.6% for the year ended 31 December 2019. Such decrease was primarily due to the decrease of gross profit margin of semiconductor business, which decreased from approximately 13.7% for the year ended 31 December 2019 to approximately 6.5% for the Period. This was mainly attributable to the increase in costs driven by the labour shortage for the manufacture of semiconductors in Dongguan, Guangdong, the PRC and the additional costs incurred for the quality assurance purpose to cope with customers' technological standard and requirements on semiconductors. Furthermore, there were also 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.

The gross profit margin of Guangzhou Weaving Group was recorded at approximately 30.4% and 33.7% respectively for the Period and for the year ended 31 December 2019. 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$7.7 million, representing a decrease of approximately HK$3.5 million or 31.3% from approximately HK$11.2 million for the year ended 31 December 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 auditor's remuneration, staff costs, Directors' remuneration, legal and 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$60.6 million, representing an decrease of approximately HK$11.6 million or 16.1% over that of approximately HK$72.2 million for the year ended 31 December 2019.

The decrease was primarily attributable to, among others, (i) the decease of legal and professional fee; (ii) the decease of allowance for impairment on trade receivables; (iii) the decease of exchange losses arising from the appreciation of RMB; (iv) the provisional reduction of employer's contribution of social insurance by the PRC government due to the outbreak of COVID-19; and (v) the decrease of travelling expenses and entertainment expenses.

Impairment loss on plant and equipment and right-of-use assets for the year ended 31 December 2020

Given the adverse impact on the performance of the Group's manufacturing business of semiconductors as a result of the COVID-19 pandemic and in accordance with the HKAS 36 requirements, the management performed impairment assessment for the respective segment. The recoverable amount of the relevant assets is determined by value-in-use calculation using discounted cashflow projection, based on the financial forecasts prepared by the management and with reference to a valuation performed by an independent qualified professional valuer, Valtech Valuation Advisory Limited ("Valtech"). Valtech has appropriate qualifications and has recent experience in the valuation of similar assets in the relevant industries.

As a result of the impairment assessment, provision for impairment loss of approximately HK$34.5 million and HK$0.4 million have been made on the plant and equipment and right-of-use assets respectively during the Period. The non-cash provision for impairment loss will reduce the net carrying amount of plant and equipment and right-of-use assets, reducing the depreciation charge over the remaining lease terms.

Allowance for inventories for the year ended 31 December 2020

The management reviews the condition of inventories of the Group at the end of the Period. During the Period, allowance for impairment loss of approximately HK$1.8 million has been made against the aged inventory items including finished goods and raw materials, which are considered obsolete and slow-moving (other than the Specific Types of Semiconductors mentioned in the following section headed "Impairment loss on plant and equipment and inventories for the year ended 31 December 2019"), based on the assessment of the net realisable value. The management estimates the net realisable value, with reference to the ageing analysis and considering the movement and saleability of the inventories.

The allowance for impairment loss of inventories for the year ended 31 December 2020 has been recognised in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

Impairment loss on plant and equipment and inventories for the year ended 31 December 2019

In September 2019, the Group received complaints from a few customers about certain types of semiconductors (the "Specific Types of Semiconductors") manufactured by a wholly-owned subsidiary of the Group, Dongguan Jia Jun Electronic Technology Company Limited ("Dongguan Jia Jun") and stated that they would refuse to accept the Specific Types of Semiconductors in the future if the technical standard of semiconductors have not yet improved. Dongguan Jia Jun, therefore, discussed with the relevant customers about the reason for the complaints of the Specific Types of Semiconductors and commenced its internal review procedure.

After due investigation and review by the R&D department of Dongguan Jia Jun in November 2019, it was concluded that the electrical defective parts per million ("DPPM") level of the Specific Types of Semiconductors was unsatisfactory according to the customers' technical standard for the production of electronic devices with more advanced technological functions, and the specific machineries (the "Specific Machineries") were unable to manufacture semiconductors that can meet such technical standard of DPPM required by customers.

The Group has been producing the Specific Types of Semiconductors to fulfil the continuous order demand from its customers. It is a flowing process of production of Specific Types of Semiconductors by the Group and the application of the Specific Types of Semiconductors by the customers into the production of various electronic devices. In some circumstances and as requested by the customers, the Specific Types of Semiconductors would be delivered within a short lead time after receiving the customers' orders.

The Specific Types of Semiconductors delivered to the customers were not defective products. The failure of Specific Types of Semiconductors to meet the DPPM standard during the production process of customers, was only due to the fact that the customers applied the Specific Types of Semiconductors to produce electronic devices with more advanced technological functions and such Specific Types of Semiconductors were no longer up to the technical standard of current market. From the customers' perspective, the use of Specific Types of Semiconductors, which could not meet the technical standard of DPPM, would result in quality issue during the manufacturing process of the electronic devices with more advanced technological functions.

As a result, the customers stated that they would not accept the Specific Types of Semiconductors in the future and requested semiconductors with higher technical standard to maintain the DPPM standard during the production process of electronic devices with more advanced technological functions.

In this regard, the Company would like to emphasis that there was no return of Specific Types of Semiconductors which has been delivered to the customers. There were only complaints from a few customers and requests for the Group to deliver semiconductors with better technical standard in the future.

In order to establish and maintain long-term and good relationship with its customers, the Group has communicated with customers that the Group will supply the semiconductors that can meet the DPPM standard in the future.

In fact, the Group generated revenue from the sale of the Specific Types of Semiconductors manufactured by the Specific Machineries since 2013. From 2013 to 2019, the Group had also incurred additional capital expenditure to increase the production capacity of the Specific Machineries, so as to fulfil the increasing demand from customers for the Specific Types of Semiconductors. During these years, the Specific Types of Semiconductors manufactured had been accepted by customers and met the customers' technical standard of DPPM for the production process of electronic devices.

However, the semiconductor industry and its downstream industries are characterised by rapid technological changes and evolving industry standards. During these years, the Group's R&D department had put effort to improve the quality in order to meet the continuous increasing technological standard required by its customers.

Hence, the failure of Specific Types of Semiconductors manufactured by the Specific Machineries to meet the customers' technical standard for the production process of electronic devices with more advanced technological functions, was neither due to the fault of the Company nor the relevant suppliers of the Specific Machineries. There is no breach of warranty or compensation in respect of the Specific Machineries by the relevant suppliers.

In December 2019, the Group had further conducted an analysis for the cost-effectiveness of modification and enhancement of the Specific Machineries. It was found that the additional costs of modifying the Specific Machineries go beyond the benefits for the fulfilment of customers' technological requirements. Moreover, the Group does not have the expertise nor sufficient space to re-equip or re-assemble the Specific Machineries. The Group can only outsource the re-equipment or re-assembly of the Specific Machineries, which involves monetary cost and time cost. This is less cost efficient compared with the sale of the Specific Machineries and acquisition of new machineries to produce semiconductors that can meet the customers' technical standard. As a result, the Specific Machineries remained idle.

Future economic benefit of the Specific Machineries that can bring to the Group would likely be adversely affected. The Group regarded this condition as an indication that the Specific Machineries may be impaired. In view of this, in December 2019, the Group engaged Valtech, the independent qualified professional valuer, to evaluate the recoverable amounts of the Specific Machineries, which were based on the fair value less costs of disposal. Valtech has appropriate qualifications and has recent experience in the valuation of similar machineries in the relevant industries.

In determining the fair value less costs of disposal, the market approach was mainly adopted by Valtech which considers prices recently paid for similar assets in an active market, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative, as well as quotations from second-hand traders. Valtech had assumed that the equipment is capable to be used in its present existing state and in normal working condition and had come to the conclusion that the fair value less costs of disposal of the Specific Machineries was approximately HK$15.3 million. As a result, impairment loss of approximately HK$22.5 million was recorded.

In order to assess the fairness and reasonableness of the impairments, the directors had considered the fair value with reference to the second-hand market price quotation and Valtech's valuation report for the impaired Specific Machineries, and were of the view that the conclusion of the fair value of impaired Specific Machineries of approximately HK$15.3 million was fair and reasonable.

On the other hand, the Specific Types of Semiconductors manufactured by the Specific Machineries were tailor-made based on the customers' specifications. It requires lots of time and manpower to check and select the Specific Types of Semiconductors for testing and modification one by one, which are tiny in size (e.g. 1.0mm x 0.6mm x 0.38mm). From the economic perspective, it is not possible to modify and it is more cost efficient to manufacture a new batch of semiconductors. Therefore, the possibility of reselling them to the market is remote. The net realisable values of the respective inventories including finished goods and raw materials were anticipated to be minimal. As a result, these inventories with carrying amount of approximately HK$10.3 million were fully impaired as at 31 December 2019.

In conclusion, the impairment of inventories and plant and equipment was mainly due to technological advancement of electronic devices, and the Specific Machineries can no longer produce semiconductors up to the technical standard required by current market. As a result, the Specific Machineries and Specific Types of Semiconductors became obsolete.

All these circumstances were not anticipated by the Group at the time of acquisition of the Specific Machineries, most of which were already made by the Group for two to six years as at 31 December 2019.

The Company's plan on the Specific Machineries as at 31 December 2019

The Specific Machineries, mainly comprising of aluminum wire bonding machine, automatic dispensing machine, cutting machine, die bonding machine, high-speed die bonding machine, high-speed wire bonding machine, encapsulate molding machine, forming machine, laser label printing machine, laser marking machine, sorting machine, test handler, testing system and other production machinery, were acquired by the Group from over 20 suppliers, which were all third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules), on arm's length basis. Most of the Specific Machineries had been purchased by the Group for two to six years as at 31 December 2019 and the transaction amount ranged from approximately HK$20,000 to HK$8 million.

The management believed that the Specific Machineries still have re-sale value in the second-hand market for some manufacturers/recyclers of machinery and equipment, which have the ability to re-equip or re-assemble the Specific Machineries with relatively lower cost. Hence, the Group would seek opportunities to sell the Specific Machineries to these manufacturers/recyclers or other interested parties in the second-hand market. In view of this, the Specific Machineries were classified as "Non-current asset classified as held for sale" in the consolidated statement of financial position of the Group as at 31 December 2019.

Update on the Specific Types of Semiconductors and Specific Machineries

During the Period, the management has also attempted to sell the impaired inventory of Specific Types of Semiconductors and part of them, with allowance for impairment loss of approximately HK$5.8 million, have been disposed of as scrap materials to an electronic component trading company, which was a third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules), on arm's length basis. As a result, gain on disposal of approximately HK$0.6 million was recorded in other income in profit and loss for the year ended 31 December 2020. The disposal of impaired inventory of Specific Types of Semiconductors did not constitute any notifiable transaction under Chapter 14 of the Listing Rules.

Moreover, the management considers that there is no realistic prospect of selling the remaining portion of the impaired Specific Types of Semiconductors. Therefore, the Group has written off substantial part of the remaining impaired Specific Types of Semiconductors during the Period, which amounted to approximately HK$3.0 million, in order to optimise the use of storage space in the warehouse.

As at 31 December 2020, the balance of allowance for impairment loss of Specific Types of Semiconductors remained approximately HK$1.4 million.

During the Period, the Specific Machineries with carrying amount of approximately HK$6.4 million have been sold in different tranches to a number of manufacturers in the second-hand market, which were all third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules), on arm's length basis. As a result, net loss on disposals of approximately HK$0.8 million was recorded in profit and loss for the year ended 31 December 2020. The disposal of the Specific Machineries did not constitute any notifiable transaction under Chapter 14 of the Listing Rules.

In the Period, the management conducted a review of impairment of the remaining Specific Machineries and engaged Valtech, the independent qualified professional valuer, to evaluate the recoverable amounts of these Specific Machineries, which were based on fair value less costs of disposal.

In determining the fair value less costs of disposal, the market approach is mainly adopted by Valtech and is consistently applied for the current and last years, which considers prices recently paid for similar assets in an active market, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative, as well as quotations from second-hand traders. Valtech has assumed that the equipment is capable to be used in its present existing state and in normal working condition and has come to the conclusion that the fair value less costs of disposal of the remaining Specific Machineries was approximately HK$7.3 million. As a result, impairment loss of approximately HK$2.0 million has been made on the remaining Specific Machineries and was recognised in the profit or loss for the the year ended 31 December 2020.

In order to assess the fairness and reasonableness of the impairments, the Directors have considered the fair value with reference to the second-hand market price quotation and Valtech's valuation report, and are of the view that the conclusion of the fair value of the remaining Specific Machineries of approximately HK$7.3 million is fair and reasonable.

As at 31 December 2020, the management remains committed to the plan to sell the Specific Machineries and will actively seek out and communicate with the potential buyers in the second-hand market. Therefore, the remaining Specific Machineries with carrying amount of approximately HK$7.3 million continues to be classified as held for sale and was separately presented in the consolidated statement of financial position of the Group as at 31 December 2020.

Furthermore, the management still expects that this plan of disposal is unlikely to constitute a notifiable transaction under Chapter 14 of the Listing Rules as the remaining Specific Machineries will be sold in different tranches to different manufacturers and the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules in respect of the disposal of the Specific Machineries where necessary.

Income Tax Credit

The Group's income tax credit for the Period was approximately HK$8.4 million, as compared to income tax credit of approximately HK$4.7 million for the year ended 31 December 2019. Such increase of income tax credit was primarily attributable to the deferred tax impact arising from the impairment loss on plant and equipment, right-of-use assets and non-current assets classified as held for sale and the effect of change in applicable tax rate of Dongguan Jia Jun as disclosed in note 4 to the consolidated financial statements in this announcement.

Loss for the Period

As a result of the foregoing, the Group's net loss for the Period was approximately HK$58.8 million, when compared to the net loss of approximately HK$49.9 million for the year ended 31 December 2019.

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 2020 amounted to approximately HK$11.0 million (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 31 December 2020, the Group had no outstanding bank borrowings.

Please refer to note 8 to the consolidated financial statements in this announcement for the ageing analysis in respect of the trade payables of the Group as at 31 December 2020 and 2019.

The Group's gearing ratio as at 31 December 2020 and 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 31 December 2020, the Group did not have any asset pledged (2019: Nil).

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

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

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (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 years ended 31 December 2020 and 2019, approximately 41% and 48%, 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 6% and 15%, 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 31 December 2020 and 2019 are as follows:

	Assets		**Liabilities**	
	As at 31 December		**As at 31 December**	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars	**34,395**	47,563	**2,713**	4,998
Renminbi	**4,818**	2,277	**–**	74
	39,213	49,840	**2,713**	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 31 December 2020, the Group had a workforce of 430 full-time employees (including the Directors but excluding the 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 2020 and 2019 amounted to approximately HK$59.2 million and HK$58.9 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.

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 administrative sanctions or penalties were imposed on the Group for the violation of environmental laws or regulations which had a material adverse impact on its operations.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the Period (2019: Nil).

BUSINESS PROSPECT

In the coming years, the global economic environment is expected to be complex and the prospect of the Group's semiconductors business will be full of challenges. There is still no clue when the global economy will be fully recovered from the impact of the COVID-19 pandemic. In addition, the ongoing trade tension between China and the United States will affect the global semiconductor supply chain and the semiconductor market. This may further affect the Group's customers of semiconductors to take a conservative approach for the plan of new order placing.

Although the accelerated innovation and development of 5G technology and related emerging applications bring the new business opportunities to the semiconductor industry, the Group also faces the challenges of higher technical standard from the customers and more competitive market regionally and globally. Nevertheless, the Group intends to continue its research and development to strengthen its production process and quality control and will closely monitor the changes in the macro environment and make timely strategic development to seize market opportunities.

On the other hand, under China's "14th Five-Year Plan", innovation and technology development have been elevated to core national priorities and strategic supporting pillar to its economic development. It is foreseeable that 5G networks, 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. We believe that the wide range of technological innovation will drive the emerging applications in the smart living sector. In view of this, the Group will capitalise on the fast-growing demand of technological application in the smart living sector.

Looking forward, Guangzhou Weaving is dedicated to be a smart domain solution integrator. 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 or those being encouraged and supported by the PRC government. By leveraging the management team's expertise and network in the field of mobile telecommunication, networking and smart city, and our well-established relationship with telecom carriers and property developers (such as Seedland and R&F Properties), the Group is also vigorous to explore other business opportunities, especially in the field of smart campus and the smart parking.

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.

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 provision set out in the CG Code, except for A.1.1 and E.1.2, during the Period.

Pursuant to A.1.1 of the CG Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. Although only 2 regular Board meetings were held during the year ended 31 December 2020, the Board considered that sufficient meetings had been held as business operations were under the management and the supervision of the executive Directors. In addition, senior management of the Group provided to the Directors the information in respect of the Group's business development and activities from time to time and the significant matters had been either duly reported, discussed and resolved at the 2 Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes.

E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. However, due to other business engagements, Mr. Zhang, the chairman of the Board, was unable to attend the annual general meeting held on 12 June 2020. Mr. Tong Wen-hsin, a former executive Director, was invited to take the chair and answer questions from Shareholders at the annual general meeting.

ANNUAL GENERAL MEETING

The AGM of the Company will be held in Hong Kong on Friday, 11 June 2021. Notice of the AGM will be issued and disseminated to Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members will be closed from Tuesday, 8 June 2021 to Friday, 11 June 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 7 June 2021 for registration.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference that comply with the requirements of the CG Code. The audit committee currently comprises all independent non-executive Directors, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo, and is chaired by Mr. Xu Liang. The audit committee has reviewed the annual results of the Group in respect of the Period.

DEFINITIONS

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

"AGM"	the annual general meeting of the Company to be held on Friday, 11 June 2021
"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
"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
"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 with limited liability
"Guangzhou Weaving Group"	Guangzhou Weaving and its subsidiary
"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
"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
"Mr. Zhang"	Mr. Zhang Liang Johnson
"Period"	the year ended 31 December 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
"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.*

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

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Zhang Liang Johnson and Ms. Wan Duo and three independent non-executive Directors, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo.