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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2022 together with the unaudited comparative figures for the corresponding period in 2021, as follows:

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

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended	
		30 June	
		2022	2021
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	160,834	155,858
Cost of sales		<u>(131,996)</u>	<u>(130,265)</u>
Gross profit		28,838	25,593
Other income		3,747	1,252
Selling and distribution costs		(4,885)	(4,604)
Administrative expenses		(28,676)	(35,826)
Finance costs	4	<u>(4,227)</u>	<u>(2,934)</u>
Loss before tax		<u>(5,203)</u>	<u>(16,519)</u>

		Six months ended	
		30 June	
		2022	2021
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Income tax expenses	5	<u>(2,592)</u>	<u>(2,844)</u>
Loss for the period	6	<u>(7,795)</u>	<u>(19,363)</u>
Other comprehensive (expense) income for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		<u>(3,780)</u>	<u>1,538</u>
Total comprehensive expense for the period attributable to owners of the Company		<u><u>(11,575)</u></u>	<u><u>(17,825)</u></u>
Loss per share			
– Basic and diluted (<i>HK cents</i>)	7	<u><u>(0.97)</u></u>	<u><u>(2.42)</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Non-current assets			
Plant and equipment	<i>9</i>	75,636	93,306
Right-of-use assets		3,936	4,069
Intangible assets		1,148	1,239
Deferred tax assets		11,318	14,264
Prepayment for plant and equipment		1,823	1,204
		93,861	114,082
Current assets			
Inventories		60,911	49,643
Finance lease receivable		242	491
Trade and other receivables	<i>10</i>	127,344	132,506
Contract assets		1,702	1,844
Amounts due from related companies		9,729	11,508
Tax recoverable		417	911
Bank balances and cash		30,738	42,644
		231,083	239,547
Non-current assets classified as held for sale	<i>11</i>	–	–
		231,083	239,547
Current liabilities			
Trade and other payables	<i>12</i>	124,052	120,183
Lease liabilities		3,019	2,340
Deferred income		497	796
Loan from an immediate holding company		9,033	–
		136,601	123,319

	30 June	31 December
	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Net current assets	<u>94,482</u>	<u>116,228</u>
Total assets less current liabilities	<u>188,343</u>	<u>230,310</u>
Non-current liabilities		
Lease liabilities	1,634	2,480
Deferred tax liability	284	313
Deferred income	2,882	5,086
Loan from an immediate holding company	2,105	25,100
Loans from related companies	<u>50,201</u>	<u>55,007</u>
	<u>57,106</u>	<u>87,986</u>
	<u>131,237</u>	<u>142,324</u>
Capital and reserves		
Share capital	8,000	8,000
Reserves	<u>123,237</u>	<u>134,324</u>
	<u>131,237</u>	<u>142,324</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021 (audited)	8,000	104,098	8,282	2,172	(7,725)	12,778	59,033	186,638
Loss for the period	-	-	-	-	-	-	(19,363)	(19,363)
Other comprehensive income for the period:								
Exchange difference arising on translation of foreign operations	-	-	-	-	1,538	-	-	1,538
Total comprehensive income (expense) for the period	-	-	-	-	1,538	-	(19,363)	(17,825)
At 30 June 2021 (unaudited)	8,000	104,098	8,282	2,172	(6,187)	12,778	39,670	168,813
At 1 January 2022 (audited)	8,000	104,098	8,459	5,688	(4,003)	12,778	7,304	142,324
Loss for the period	-	-	-	-	-	-	(7,795)	(7,795)
Other comprehensive expense for the period:								
Exchange difference arising on translation of foreign operations	-	-	-	-	(3,780)	-	-	(3,780)
Total comprehensive expense for the period	-	-	-	-	(3,780)	-	(7,795)	(11,575)
Deemed contribution from an immediate holding company and a related company	-	-	-	488	-	-	-	488
Transfer to statutory reserve	-	-	247	-	-	-	(247)	-
At 30 June 2022 (unaudited)	8,000	104,098	8,706	6,176	(7,783)	12,778	(738)	131,237

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Loss before tax	(5,203)	(16,519)
Adjustments for:		
Amortisation of intangible assets	94	90
Amortisation of deferred income	(2,311)	(775)
Bank interest income	(105)	(292)
Depreciation of plant and equipment	7,325	12,286
Depreciation of right-of-use assets	1,731	1,723
Finance costs	4,227	2,934
Gain on disposal of plant and equipment	(744)	–
Government grants	(561)	(17)
Interest income on finance lease	(25)	(53)
Loss on disposal of non-current assets classified as held for sale	–	436
Write-off of plant and equipment	–	47
Operating cash flows before movements in working capital	4,428	(140)
Increase in inventories	(13,860)	(36)
Decrease (increase) in trade and other receivables	853	(17,252)
Decrease (increase) in contract assets	62	(4,748)
Decrease (increase) in amounts due from related companies	1,311	(130)
Increase in trade and other payables	7,964	22,581
Decrease in finance lease receivable	259	259
Cash generated from operations	1,017	534
Hong Kong profits tax paid	–	–
PRC enterprise income tax refund (paid)	265	(548)
NET CASH GENERATED FROM (USED IN)		
OPERATING ACTIVITIES	1,282	(14)

	Six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(1,884)	(1,001)
Prepayment for plant and equipment	(1,847)	(63)
Settlement of payables for plant and equipment	(5)	(211)
Bank interest received	105	292
Proceeds from disposal of plant and equipment	10,442	–
Proceeds from disposal of non-current assets classified as held for sale	–	3,996
Development costs paid for intangible assets	(57)	–
	<u>6,754</u>	<u>3,013</u>
NET CASH GENERATED FROM INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Government grants received	561	1,686
Repayment of principal element of lease liabilities	(1,732)	(1,678)
Repayment of interest element of lease liabilities	(140)	(216)
Repayment to an immediate holding company	(16,370)	(8,000)
Repayment to a related company	(11,141)	–
Loan obtained from an immediate holding company	820	–
Loan obtained from a related company	6,017	–
	<u>(21,985)</u>	<u>(8,208)</u>
NET CASH USED IN FINANCING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	<u>(13,949)</u>	<u>(5,209)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		
	42,644	74,150
Effect of foreign exchange rate changes	2,043	(238)
	<u>2,043</u>	<u>(238)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH		
	<u><u>30,738</u></u>	<u><u>68,703</u></u>

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 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 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 semiconductors, 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 loan from an immediate holding company and loans from related companies that are measured 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 2021.

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 2022.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018 – 2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. 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 arising 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 is as follows:

	Six months ended	
	30 June	
	2022	2021
	HK\$'000	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Manufacturing of electronic goods	68,267	62,601
Trading of electronic goods	72,136	42,416
Broadband infrastructure and smart domain:		
– Broadband infrastructure construction services	5,711	28,829
– Commission income	6,547	7,817
– Provision of smart domain solution services and others	4,997	11,313
	<u>157,658</u>	<u>152,976</u>
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	3,176	2,882
	<u>3,176</u>	<u>2,882</u>
	<u>160,834</u>	<u>155,858</u>

Disaggregation of revenue from contracts with customers by timing of recognition

	Six months ended	
	30 June	
	2022	2021
	HK\$'000	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
At a point in time	151,947	124,147
Over time	5,711	28,829
	<u>157,658</u>	<u>152,976</u>
Total revenue from contracts with customers	<u>157,658</u>	<u>152,976</u>

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	
	2022	2021	2022	2021	2022	2021	2022	2021
	<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)	
Segment revenue	<u>68,267</u>	<u>62,601</u>	<u>72,136</u>	<u>42,416</u>	<u>20,431</u>	<u>50,841</u>	<u>160,834</u>	<u>155,858</u>
Segment profit	<u>10,668</u>	<u>4,147</u>	<u>6,347</u>	<u>4,292</u>	<u>2,339</u>	<u>894</u>	<u>19,354</u>	<u>9,333</u>
Unallocated income							<u>526</u>	<u>115</u>
Unallocated expenses							<u>(25,083)</u>	<u>(25,967)</u>
Loss before tax							<u>(5,203)</u>	<u>(16,519)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of certain administrative expenses, certain 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 30 June 2022 <i>HK\$'000</i> (Unaudited)	As at 31 December 2021 <i>HK\$'000</i> (Audited)
SEGMENT ASSETS		
Manufacturing	151,871	138,100
Trading	22,854	27,503
Broadband infrastructure and smart domain	107,262	142,263
Unallocated	42,957	45,763
	<hr/>	<hr/>
Total assets	324,944	353,629
	<hr/> <hr/>	<hr/> <hr/>
SEGMENT LIABILITIES		
Manufacturing	30,679	22,546
Trading	28,075	20,634
Broadband infrastructure and smart domain	65,461	77,646
Unallocated	69,492	90,479
	<hr/>	<hr/>
Total liabilities	193,707	211,305
	<hr/> <hr/>	<hr/> <hr/>

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, deferred tax liability, loans from an immediate holding company and loans from related companies.

4. FINANCE COSTS

	Six months ended	
	30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interests on:		
Lease liabilities	140	216
Loans from an immediate holding company	921	918
Loans from related companies	1,240	1,734
Loss on early repayment of loan from an immediate holding company	971	66
Loss on early repayment of loan from a related company	955	–
	<u>4,227</u>	<u>2,934</u>

5. INCOME TAX EXPENSES

The Group calculates the income tax expenses for the Period 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	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	–	–
The PRC	202	1
	<u>202</u>	<u>1</u>
Under provision in prior years:		
Hong Kong	18	–
The PRC	–	–
	<u>18</u>	<u>–</u>
Deferred tax	<u>2,372</u>	<u>2,843</u>
	<u>2,592</u>	<u>2,844</u>

- (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 2022 and 2021.
- (ii) For the six months ended 30 June 2022 and 2021, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of the qualifying corporation is taxed at 8.25%, and assessable profits of the qualifying corporation above HK\$2,000,000 is taxed at 16.5%. The assessable profits of the other entities of the Group not qualifying for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.
- (iii) 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 six months ended 30 June 2022 and 2021, Guangzhou Weaving was recognised by the PRC government as a “High and New Technology Enterprise” and was eligible to a preferential tax rate of 15%.

6. LOSS FOR THE PERIOD

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

	Six months ended	
	30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Amount of inventories recognised as expenses	121,990	93,879
Amortisation of intangible assets	94	90
Depreciation of plant and equipment	7,325	12,286
Depreciation of right-of-use assets	1,731	1,723
Research and development costs (<i>Note (i)</i>)	5,468	6,869
Write-off of plant and equipment	–	47
Government grants (<i>Note (ii)</i>)	(561)	(17)
Gain on disposal of plant and equipment	(744)	–
Gain on disposal of trademark	–	(90)
Loss on disposal of non-current assets classified as held for sale	–	436
Staff costs (including Directors’ emoluments)		
Salaries and allowances	22,214	31,391
Retirement benefits scheme contributions	2,996	2,979
	<u>25,210</u>	<u>34,370</u>
Total staff costs	<u>25,210</u>	<u>34,370</u>

Notes:

- (i) The research and development costs included staff cost of approximately HK\$3,806,000 (six months ended 30 June 2021: HK\$4,483,000) 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 2022 and 2021.

7. LOSS PER SHARE

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

Basic loss per share

	Six months ended	
	30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share	<u>HK\$(7,795,000)</u>	<u>HK\$(19,363,000)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>800,000,000</u>	<u>800,000,000</u>

Diluted loss per share

Diluted loss per share is the same as basic loss per share for the six months ended 30 June 2022 and 2021 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 2021: nil).

9. PLANT AND EQUIPMENT

During the Period, the Group acquired plant and equipment of approximately HK\$3,044,000 (six months ended 30 June 2021: HK\$3,556,000).

During the Period, plant and equipment with a net carrying value of approximately HK\$9,698,000 (six months ended 30 June 2021: nil) were disposed of by the Group, for cash proceeds of approximately HK\$10,442,000, resulting in a net gain on disposals of approximately HK\$744,000.

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\$47,000 were written off by the Group during the six months ended 30 June 2021.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	106,594	113,554
Less: allowance for impairment of trade receivables	<u>(7,718)</u>	<u>(8,060)</u>
	98,876	105,494
Deposits and other receivables	3,879	1,781
Receivables for disposal of plant and equipment and non-current assets classified as held for sale	11,468	10,843
Value-added tax recoverable	7,397	10,329
Prepayments	<u>5,724</u>	<u>4,059</u>
Total trade and other receivables	<u>127,344</u>	<u>132,506</u>

As at 30 June 2022, the gross amount of trade receivables arising from contracts with customers and operating leases amounted to approximately HK\$95,016,000 (31 December 2021: HK\$109,116,000) and HK\$3,860,000 (31 December 2021: HK\$4,438,000) respectively.

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

The Group allows a credit period up to 90 days to its customers for manufacturing and trading segments. For customers for broadband infrastructure and smart domain segment, various credit periods are granted to its customers, and the credit period of individual customer is considered on a 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 reporting period.

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
0 to 30 days	33,767	50,762
31 to 90 days	27,708	25,476
91 to 365 days	26,105	23,633
Over 365 days	<u>11,296</u>	<u>5,623</u>
	<u>98,876</u>	<u>105,494</u>

11. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2019, the Directors committed to a plan to dispose certain machineries with carrying amount of approximately HK\$15,276,000 under the manufacturing segment which were therefore classified as non-current assets held for sale and presented separately in the consolidated statement of financial position as at 31 December 2019.

As at 31 December 2021, all non-current assets classified as held for sale were fully disposed of.

12. TRADE AND OTHER PAYABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Trade payables	89,194	97,120
Payables for acquisition of plant and equipment	736	5
Accruals of costs for contract works	333	265
Accrued staff costs	3,557	6,548
Payable for commission	1,777	1,795
Accruals and other payables	18,067	14,450
Contract liabilities	<u>10,388</u>	<u>–</u>
	<u>124,052</u>	<u>120,183</u>

Included in other payables, amount of approximately HK\$1,273,000 represented interest payable to loan from an immediate holding company as at 30 June 2022 (31 December 2021: HK\$1,031,000).

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 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within 3 months	48,718	62,650
4 to 6 months	3,692	14,293
7 to 12 months	22,611	15,431
Over 1 year	14,173	4,746
	89,194	97,120

The credit period on purchases of goods ranged from 30 to 180 days (31 December 2021: 30 to 180 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 2022, the Group has contracted for but not provided in the unaudited condensed consolidated financial results in respect of acquisition of plant and equipment and broadband infrastructure construction of approximately HK\$7,116,000 (31 December 2021: HK\$8,537,000).

14. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

The unaudited condensed consolidated financial results were approved and authorised for issue by the Board on 31 August 2022.

15. EVENTS AFTER THE REPORTING PERIOD

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

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 recent years continues to drive the need of technologies with higher power efficiency, speed and more complex functionalities. This has 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.

With the vaccination programmes and the implementation of economic recovery measures, the global economy and the semiconductor market have gradually recovered from the adverse impact of COVID-19. Under the global chip shortage environment, the Group strived to compete with other market players to capture the market demand in this phase of recovery. The Group leveraged the adequate inventory level and relatively stable supply chain for the manufacturing and trading of semiconductors. Hence, the Group’s revenue from manufacturing and trading of semiconductors for the Period increased by approximately 33.7% as compared to the corresponding period of the previous financial year.

During the Period, the revenue from the manufacturing business of semiconductors increased by approximately 9.1% 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 revenue from trading of semiconductors increased by approximately 70.1% as compared to the corresponding period of the previous financial year.

However, the effects of the COVID-19 pandemic are still being felt across various industries. The continuous tension of the global trade dispute and the geopolitical complications around the world caused uncertainties on the recovery of the global economy. In addition, the increasing concern on the inflation and the expectation of rise of interest rate also weakened the willingness of consumers and put downward pressure on the demand of consumer electronic products. The Group's customers of semiconductors recently slowed down their new order placing. The full recovery of the orders from the customers remains uncertain.

(ii) *Broadband infrastructure and smart domain business*

Guangzhou Weaving, the wholly-owned subsidiary of the Group, is principally engaged in 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.

Since 2021, the property developers in the PRC were adversely affected by the more stringent deleveraging policy in the PRC real estate industry. The tight liquidity in the real estate industry led to the longer completion period of existing construction service projects. The property developers generally adopted a prudent management approach on capital expenditure for new land and development projects. These significantly decreased the market demand and the Group's revenue of projects for the broadband infrastructure construction and smart domain solution during the Period.

Moreover, certain policies implemented by the PRC government also brought challenges to the Group. The state policy on "Facilitating Fast and More Affordable Internet Connection" continues to put downward pressure on the profitability of the broadband infrastructure industry and in the long run affects the commission income shared from telecom operators for the promotion of broadband.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of approximately HK\$160.8 million during the Period, as compared to the revenue of approximately HK\$155.8 million for the six months ended 30 June 2021. The increase in revenue was approximately HK\$5.0 million or 3.2% when compared to the corresponding period of the previous financial year. It was primarily attributable to the increase in the revenue of semiconductor business.

For semiconductor business, both manufacturing and trading segments also benefited from the recovery of the semiconductor market from the impact of COVID-19. The Group strived to capture the market demand in this phase of recovery. During the Period, the Group recorded revenue of approximately HK\$68.3 million from sales of its self-manufactured semiconductors, representing an increase of approximately HK\$5.7 million or 9.1% as compared to that of approximately HK\$62.6 million for the six months ended 30 June 2021.

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\$72.1 million, representing an increase of approximately HK\$29.7 million or 70.1% as compared to that of approximately HK\$42.4 million for the six months ended 30 June 2021.

On the other hand, the revenue of broadband infrastructure and smart domain segment contributed by Guangzhou Weaving Group amounted to approximately HK\$20.4 million during the Period, compared to the revenue of approximately HK\$50.8 million for the six months ended 30 June 2021. The decrease of approximately HK\$30.4 million or 59.8% was mainly because there were less projects for broadband infrastructure construction and smart domain solution during the Period.

Gross Profit and Gross Profit Margin

The Group's gross profit amounted to approximately HK\$28.8 million for the Period, representing an increase of approximately HK\$3.2 million or 12.7% from approximately HK\$25.6 million for the six months ended 30 June 2021. It was mainly attributable to the increase in revenue and gross profit margin of the semiconductors business, which led to the gross profit of semiconductor business having increased from approximately HK\$12.3 million for the six months ended 30 June 2021 to approximately HK\$18.8 million for the Period.

Moreover, Guangzhou Weaving Group also contributed gross profit of approximately HK\$10.0 million for the Period, while recorded gross profit of approximately HK\$13.3 million for the six months ended 30 June 2021.

The Group's overall gross profit margin for the Period was approximately 17.9%, representing an increase of approximately 1.5 percentage points, as compared with gross profit margin of approximately 16.4% for the six months ended 30 June 2021. Such increase was primarily due to the increase of gross profit margin of the semiconductor business, which increased from approximately 11.7% for the six months ended 30 June 2021 to approximately 13.4% for the Period. This was mainly attributable to the higher efficiency for the absorption of manufacturing overhead costs arising from the increase in revenue and sales volume of semiconductors during the Period.

The gross profit margin of Guangzhou Weaving Group was recorded at approximately 49.1% and 26.2% respectively for the Period and for the six months ended 30 June 2021. The increase in gross profit margin was mainly due to the decrease of projects for the broadband infrastructure construction and smart domain solution, which had a comparatively lower gross margin in the product mix of this segment.

Selling and Distribution Costs

The Group's selling and distribution costs for the Period was approximately HK\$4.9 million, representing an increase of approximately HK\$0.3 million or 6.1% from approximately HK\$4.6 million for the six months ended 30 June 2021. The amount mainly represented the selling and distribution costs of semiconductors business and such increase was primarily attributable to the increase in commission expenses to third-party agent, which was in line with the increase of the Group's sales to customers of semiconductors referred by its third-party agent.

Administrative Expenses

Administrative expenses mainly included staff costs, Directors' remuneration, legal and professional fees, depreciation, research and development expenditure, insurance, office expenses, rental expenses, travelling expenses, entertainment expenses and other miscellaneous operating expenses.

The Group's administrative expenses for the Period was approximately HK\$28.7 million, decreased by approximately HK\$7.1 million or 20.0%, as compared to that of approximately HK\$35.8 million for the six months ended 30 June 2021. The decrease was mainly due to the decrease of staff costs and workforce of the Group for the Period.

Income Tax Expenses

The Group's income tax expenses for the Period were approximately HK\$2.6 million, as compared to income tax expenses of approximately HK\$2.8 million for the six months ended 30 June 2021. Such amount of income tax expenses for the six months ended 30 June 2022 and 2021 were primarily attributable to the deferred tax impact arising from the disposal of plant and equipment and the disposal of non-current assets classified as held for sale respectively.

Loss for the Period

As a result of the foregoing, the Group's net loss for the Period was approximately HK\$7.8 million, representing a decrease of approximately HK\$11.6 million when compared to the net loss of approximately HK\$19.4 million for the six months ended 30 June 2021.

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 30 June 2022 amounted to approximately HK\$7.1 million (31 December 2021: HK\$8.5 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 2022, the Group had no outstanding bank borrowings.

Please refer to note 12 to the unaudited condensed consolidated financial results in this announcement for the ageing analysis in respect of the trade payables of the Group as at 30 June 2022 and 31 December 2021.

The Group's gearing ratios as at 30 June 2022 and 31 December 2021, 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 2022, the Group did not have any pledged assets (31 December 2021: nil).

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

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

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: 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 2022 and 2021, approximately 34.6% and 42.0%, respectively, of the Group's sales were denominated in currencies other than the functional currency of the relevant group entities making the sales, and approximately 9.7% and 3.5%, 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 2022 and 31 December 2021 are as follows:

	Assets		Liabilities	
	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)
United States dollars ("US\$")	30,872	29,498	4,045	2,668
Renminbi ("RMB")	92	96	–	–
Total:	<u>30,964</u>	<u>29,594</u>	<u>4,045</u>	<u>2,668</u>

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 2022, the Group had a workforce of 339 full-time employees (including two executive Directors but excluding three independent non-executive Directors) of whom approximately 96.8% were employed in the PRC and approximately 3.2% in Hong Kong. The Group's staff costs (including Directors' emoluments) for the six months ended 30 June 2022 and 2021 amounted to approximately HK\$25.2 million and HK\$34.4 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 2021: 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 indication as to 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 and the geopolitical complications around the world continue to affect the global semiconductor supply chain and the semiconductor market. The expectation of the inflation and rise of interest rate will put further downward pressure on the demand of consumer electronic products. 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 new business opportunities to the semiconductor industry, the Group also faces the challenges of higher technical standard from 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. Furthermore, the Group will also from time to time monitor the performance of the machineries so as to ensure customers' requirement on technical standard is met.

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, which will also be benefited from a steady and healthy PRC property market after the changes brought by the deleveraging policy. 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 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. The Group will also embrace the investment opportunities brought by technological evolution, especially those technology having the potential to disrupt existing financial and technology industries such as blockchain technology.

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

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.

The Company has complied with the code provisions set out in the CG Code, except for code provision F.2.2, during the Period.

Code provision F.2.2 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 Liang Johnson, the chairman of the Board, was unable to attend the annual general meeting held on 10 June 2022. Ms. Wan Duo, an executive Director, was invited to take the chair and answer questions from Shareholders at the annual general meeting.

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, re-appointment and removal of external auditor, monitor the integrity of the financial statements, annual reports and interim reports, 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, all being independent non-executive Directors. Mr. Xu Liang, who has appropriate professional qualifications and experience in accounting matters, is the chairperson of the audit committee.

The audit committee of the Company has reviewed this announcement 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 announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company”	Brainhole Technology Limited 脑洞科技有限公司, 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 Weaving”	廣州織網通訊科技有限公司 (Guangzhou Weaving Communications Telecommunications Technology Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“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”	a code of conduct adopted by the Company regarding securities transactions by Directors and employees of the Group on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules
“Period”	for the six months ended 30 June 2022
“PRC”	the People’s Republic of China, save that, for the purpose of this announcement and unless the context otherwise requires, references in this announcement 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, 31 August 2022

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