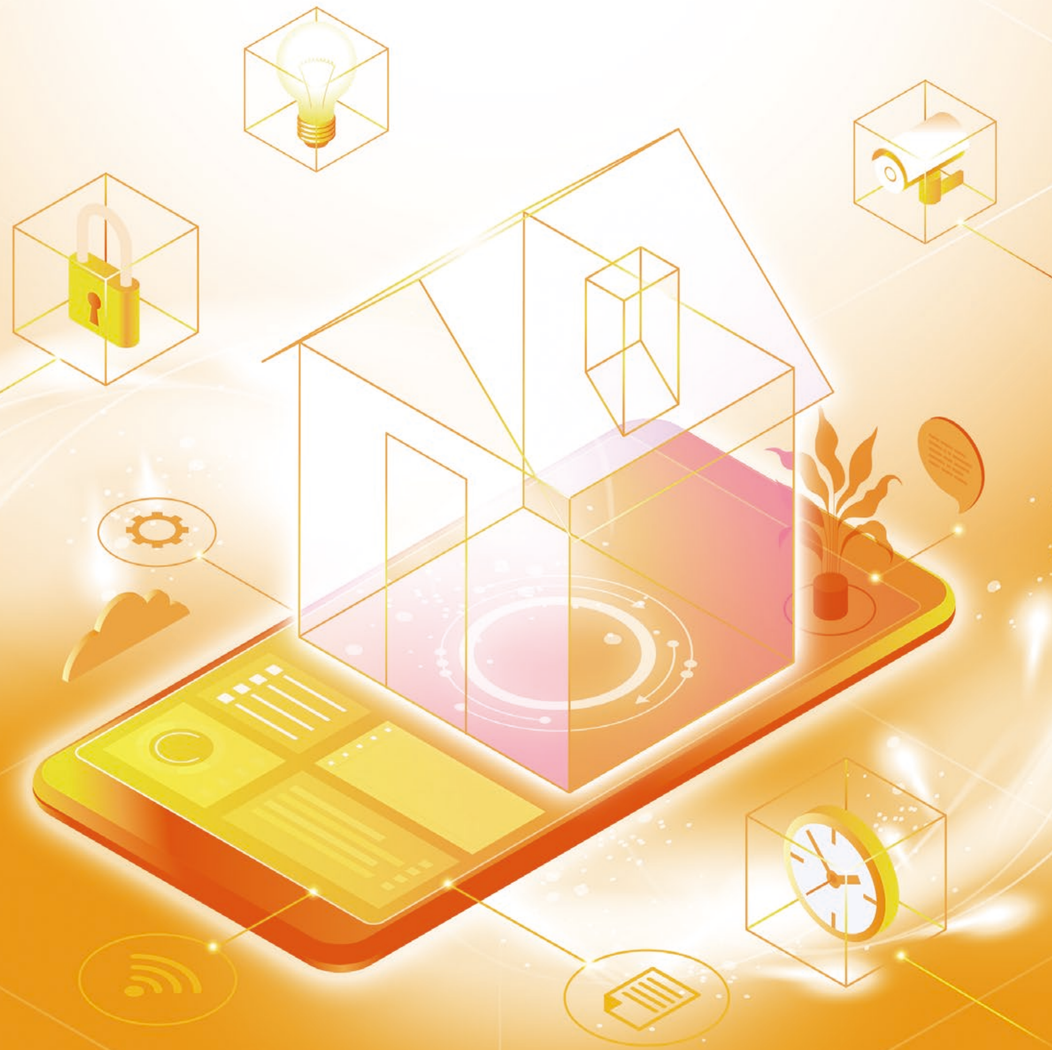
BRAINHOLE TECHNOLOGY LIMITED
腦洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2203



Interim Report 2019

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FINANCIAL RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2019 together with the unaudited comparative figures for the corresponding period in 2018, as follows:

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

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 HK$'000 (Unaudited)	Six months ended 30 June 2018 HK$'000 (Unaudited)
Turnover	*3*	**147,097**	178,366
Cost of sales		**(118,308)**	(126,074)
Gross profit		**28,789**	52,292
Other income		**441**	1,885
Selling and distribution costs		**(6,301)**	(6,890)
Administrative expenses		**(20,265)**	(19,609)
Operating profit		**2,664**	27,678
Finance cost on lease liabilities		**(75)**	–
Profit before tax	*4*	**2,589**	27,678
Income tax expenses	*5*	**(643)**	(4,986)
Profit for the period		**1,946**	22,692
Other comprehensive expense for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of a foreign operation		**(717)**	(1,176)
Total comprehensive income for the period attributable to owners of the Company		**1,229**	21,516
Earnings per share	*6*		
– Basic and diluted (HK cents)		**0.24**	2.84

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Non-current assets			
Plant and equipment	8	160,725	136,587
Intangible asset		–	–
Prepayment for plant and equipment		9,553	22,683
Right-of-use assets		1,658	–
Deferred tax asset		138	–
		172,074	159,270
Current assets			
Inventories		43,314	43,458
Trade and other receivables	9	91,333	87,121
Tax recoverable		3,067	2,377
Pledged deposit		–	5,127
Right-of-use assets		1,840	–
Bank balances and cash		32,982	39,868
		172,536	177,951
Current liabilities			
Trade and other payables	10	49,457	56,861
Amount due to immediate holding company		13,068	1,100
Deferred income		225	226
		62,750	58,187
Net current assets		109,786	119,764
Total assets less current liabilities		281,860	279,034
Non-current liabilities			
Lease liabilities		1,716	–
Deferred tax liability		45	45
Deferred income		1,375	1,494
		3,136	1,539
		278,724	277,495
Capital and reserves			
Share capital		8,000	8,000
Reserves		270,724	269,495
		278,724	277,495

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital *HK$'000*	Share premium *HK$'000*	PRC statutory reserve *HK$'000*	Capital reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2018 (audited)	8,000	104,098	5,405	8	(1,087)	133,358	249,782
Profit for the period	–	–	–	–	–	22,692	22,692
Other comprehensive expense for the period:							
Exchange difference arising on translation of a foreign operation	–	–	–	–	(1,176)	–	(1,176)
Total comprehensive (expense) income for the period	–	–	–	–	(1,176)	22,692	21,516
At 30 June 2018 (unaudited)	8,000	104,098	5,405	8	(2,263)	156,050	271,298
At 1 January 2019 (audited)	8,000	104,098	6,347	8	(8,017)	167,059	277,495
Profit for the period	–	–	–	–	–	1,946	1,946
Other comprehensive expense for the period:							
Exchange difference arising on translation of a foreign operation	–	–	–	–	(717)	–	(717)
Total comprehensive (expense) income for the period	–	–	–	–	(717)	1,946	1,229
At 30 June 2019 (unaudited)	8,000	104,098	6,347	8	(8,734)	169,005	278,724

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before tax	**2,589**	27,678
Adjustments for:		
Amortisation of deferred income	**(115)**	–
Bank interest income	**(19)**	(21)
Depreciation of plant and equipment	**11,848**	9,541
Depreciation of right-of-use assets	**1,063**	–
Finance cost on lease liabilities	**75**	–
Government grants	**–**	(1,307)
Written off of plant and equipment	**2**	–
Gain on disposal of plant and equipment	**–**	(87)
Operating cash flows before movements in working capital	**15,443**	35,804
(Increase) decrease in inventories	**(47)**	2,237
Increase in trade and other receivables	**(4,294)**	(3,092)
(Decrease) increase in trade and other payables	**(17,839)**	6,891
Cash (used in) generated from operations	**(6,737)**	41,840
Hong Kong profits tax paid	**–**	(120)
PRC enterprise income tax paid	**(1,497)**	(1,420)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(8,234)**	40,300
INVESTING ACTIVITIES		
Acquisition of plant and equipment	**(5,121)**	(889)
Proceeds from disposal of plant and equipment	**–**	4,752
Settlement of payables for plant and equipment	**(1,347)**	(972)
Prepayment for plant and equipment	**(8,590)**	(31,548)
Release of pledged deposit	**5,127**	–
Payment of lease liabilities	**(1,018)**	–
Bank interest received	**19**	6
NET CASH USED IN INVESTING ACTIVITIES	**(10,930)**	(28,651)
FINANCING ACTIVITIES		
Advance from the immediate holding company	**11,968**	–
Government grants received	**–**	1,307
NET CASH GENERATED FROM FINANCING ACTIVITIES	**11,968**	1,307
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(7,196)**	12,956
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**39,868**	42,135
Effect of foreign exchange rate changes	**310**	615
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**32,982**	55,706

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 are listed on the Main Board of the Stock Exchange.

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 in Hong Kong of the Company is Office A, 31st Floor, Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong.

The Company is principally engaged in investment holding. The principal activities of its subsidiaries are the manufacturing and trading of electronic and electrical parts and components.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2019 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 certain financial instruments, which are measured at fair values.

The basis of preparation and accounting policies adopted in preparing these unaudited condensed consolidated financial results for the six months ended 30 June 2019 are consistent with those adopted in the preparation of the Group's annual report for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The adoption of HKFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the unaudited condensed consolidated financial results. The new accounting policies are set out in note 2.3 below. The application of other new and amendments to HKFRSs in the current interim period has had no material effects on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial results.

2.1 Impacts on adoption of HKFRS 16 *Leases*

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 2.3. The Group has applied HKFRS 16 *Leases* modified retrospectively and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 *Leases*.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 on the Group's unaudited condensed consolidated financial results are described below.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 *Leases* (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.6%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Differences between operating lease commitment as at 31 December 2018, the date immediately preceding the date of initial application of HKFRS 16, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	3,807
Less: Short-term leases with remaining lease term ending on or before31 December 2019	(4)
	3,803
Discounted using the incremental borrowing rate	(454)
Lease liabilities recognised as at 1 January 2019	3,349
Current portion	1,164
Non-current portion	2,185
Total liabilities	3,349

2.2 Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made under HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2.3. Change in accounting policies

Leases

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The current portion of the Group's lease liabilities are included in "Trade and other payables" while the non-current portion of the Group's lease liabilities are presented as a separate line item in the unaudited condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item in the unaudited condensed consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment losses on tangible and intangible assets" policy as stated in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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. TURNOVER AND SEGMENT INFORMATION

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

(i) manufacturing segment engages in selling of electronic and electrical parts and components manufactured by the Group; and

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

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

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		Total	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue	**102,747**	118,935	**44,350**	59,431	**147,097**	178,366
Segment profit	**18,301**	38,481	**4,302**	8,236	**22,603**	46,717
Unallocated income					**326**	570
Unallocated expenses					**(20,340)**	(19,609)
Profit before tax					**2,589**	27,678

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period (2018: nil).

Segment assets and liabilities

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

	As at 30 June 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
SEGMENT ASSETS		
Manufacturing	**277,190**	258,333
Trading	**28,418**	29,533
Unallocated	**39,002**	49,355
Total assets	**344,610**	337,221
SEGMENT LIABILITIES		
Manufacturing	**35,113**	35,530
Trading	**8,965**	14,108
Unallocated	**21,808**	10,088
Total liabilities	**65,886**	59,726

Upon application of HKFRS 16, the Group's right-of-use assets and lease liabilities are included in the measure of segment assets and segment liabilities respectively at 30 June 2019. In respect of segment results, there is a change of measurement of segment results due to recognition of depreciation of right-of-use assets and finance cost on lease liabilities. Comparative information is not restated.

4. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Amount of inventories recognised as expenses	**118,308**	126,074
Depreciation of plant and equipment	**11,848**	9,541
Research and development costs	**5,945**	6,443
Written-off of plant and equipment	**2**	–
Depreciation of right-of-use assets	**1,063**	–
Government grants *(Note)*	**–**	(1,307)
Gain on disposals of plant and equipment	**–**	(87)

Note: Government grants were received from local government authorities and the Group fulfilled all conditions attached to the subsidies. The grants were recognised as other income upon receipt for the six months ended 30 June 2018.

5. INCOME TAX EXPENSES

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong	**790**	4,235
The PRC	**–**	751
	790	4,986
Overprovision in prior years, Hong Kong	**(9)**	–
Deferred tax	**(138)**	–
	643	4,986

(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 2019 and 2018.

(ii) For the six months ended 30 June 2019 and 2018, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

(iii) The Group's PRC subsidiary, 東莞市佳駿電子科技有限公司 (Dongguan Jia Jun Electronic Technology Company Limited*), was recognised as "High and New-Technology Enterprise" and was eligible to a preferential tax rate of 15% for the six months ended 30 June 2019 and 2018.

6. EARNINGS PER SHARE

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

Basic earnings per share

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share		
– Profit for the period attributable to owners of the Company	**HK$1,946,000**	HK$22,692,000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**800,000,000**	800,000,000

Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share for the six months ended 30 June 2019 and 2018 as there were no dilutive ordinary shares outstanding during these periods.

7. DIVIDEND

No interim dividend was paid or proposed during the period ended 30 June 2019, nor has any interim dividend been proposed since the end of the reporting period (six months ended 30 June 2018: nil).

8. PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired plant and equipment of approximately HK$36,989,000 (six months ended 30 June 2018: HK$4,276,000).

There was no plant and equipment which was disposed of by the Group during the six months ended 30 June 2019. For the six months ended 30 June 2018, plant and equipment with a net carrying value of approximately HK$4,665,000 were disposed of by the Group for cash proceeds of approximately HK$4,752,000, resulting in a net gain on disposals of approximately HK$87,000.

Plant and equipment with a net carrying value of approximately HK$2,000 were written off by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Receivables at amortised cost		
Trade receivables	**76,095**	69,501
Deposits and other receivables	**4,283**	6,743
Prepayments	**10,955**	10,877
	91,333	87,121

The Group does not hold any collateral over its trade and other receivables. No impairment of trade and other receivables had been recognised during the six months ended 30 June 2019 and the year ended 31 December 2018.

The Group allows a credit period of 0 to 120 days (31 December 2018: 0 to 120 days) to its trade customers. The following is an aged analysis of trade receivables presented based on the date of delivery, which approximates the respective revenue recognition dates, at the end of the reporting period.

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**65,378**	62,314
Over 3 months but less than 6 months	**10,717**	7,187
	76,095	69,501

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**28,150**	42,960
Payables for plant and equipment	**10,406**	1,605
Lease liabilities	**1,813**	–
Contract liabilities	**–**	57
Accruals and other payables	**9,088**	12,239
	49,457	56,861

Included in the Group's accruals and other payables as at 30 June 2019 were accrued directors' emoluments of approximately HK$310,000 (31 December 2018: HK$601,000). The amount is unsecured, interest-free and repayable on demand.

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 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**25,348**	40,918
Over 3 months but less than 6 months	**2,802**	2,042
	28,150	42,960

The credit period on purchases of goods ranged from 30 to 120 days (31 December 2018: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit period.

11. CAPITAL COMMITMENTS

At 30 June 2019, the Group has contracted for but not provided in the unaudited condensed consolidated financial results in respect of acquisition of plant and equipment of approximately HK$3,928,000 (31 December 2018: HK$19,811,000).

12. RELATED PARTY DISCLOSURES

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

(a) Related parties' transactions

During the six months ended 30 June 2019 and 2018, the Group was granted the right (at nil consideration) to use two trademarks registered by a company jointly controlled by an independent third party and Mr. Chow Hin Keong, a former Shareholder and Director who entered into an agreement on 27 April 2018 to dispose of Shares indirectly held by him, and who resigned as a Director on 9 June 2018.

(b) Related party balance

Except for amount due to immediate holding company of approximately HK$2,748,000 (31 December 2018: HK$1,100,000) which was unsecured, non-interest bearing and repayable on demand, the remaining balance of amount due to immediate holding company of approximately HK$10,320,000 (31 December 2018: nil) was unsecured, bearing interest ranged from 2.0% to 5.0% per annum. Out of approximately HK$10,320,000, HK$4,020,000 and HK$6,300,000 are repayable on 20 February 2020 and 20 May 2020, respectively.

(c) Compensation of key management personnel

The Directors considered that they are the only key management personnel of the Group for the periods ended 30 June 2019 and 2018.

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

13. CONTINGENT LIABILITIES

At 30 June 2019, the Group had no material contingent liabilities (31 December 2018: nil).

14. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

The unaudited condensed consolidated financial results were approved and authorised for issue by the Board on 28 August 2019.

15. EVENTS AFTER THE PERIOD

On 5 March 2019 (after trading hours of the Stock Exchange), Brainhole Technology Investments Limited (the "Purchaser"), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, Guangzhou Chong Dong Technology Co., Ltd.*（廣州蟲洞科技有限公司）("Guangzhou Chong Dong"), a company established in the PRC and wholly beneficially owned by Mr. Zhang Liang Johnson, the chairman and an executive Director and Guangzhou Weaving Communications Telecommunications Technology Limited*（廣州織網通訊科技有限公司）(the "Target"), a company established in the PRC entered into an agreement (the "Agreement"), pursuant to which, among other things, the Purchaser conditionally agreed to acquire and Guangzhou Chong Dong conditionally agreed to sell the entire equity interest of the Target at the consideration of RMB68 million (subject to adjustments).

On 20 August 2019, an extraordinary general meeting of the Company was held during which the independent Shareholders approved the Agreement and the transactions contemplated thereunder. Completion of the Agreement is expected to take place in September 2019 and upon completion, the Target and its subsidiaries will become indirect wholly owned subsidiaries of the Company. For more details of the Agreement, please refer to the announcement and circular of the Company dated 5 March 2019 and 30 July 2019 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

Due to the global trade dispute and the tariff battle between China and the United States, most of the Group's customers took a conservative approach in planning their business for 2019, and have slowed down their new order placing during the six months ended 30 June 2019. As a result, the Group's total revenue for the Period dropped by approximately 18% as compared to the corresponding period of previous financial year.

During the Period, the Group's manufacturing operations has recorded a decrease of approximately 13.6% as compared to the corresponding period in the previous financial year. In addition to its manufacturing business, the Group continues 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, global trade dispute and the tariff battle also hit the Group's trading operations and the Group's revenue from trading segment dropped by approximately 25.3% as compared to the corresponding period in the previous financial year.

During the Period, the Group continued its ongoing efforts in research and development ("R&D") and innovations. During the Period, the Group registered 11 patent rights in the PRC in respect of its process innovation and product innovation and the Group's PRC Subsidiary continued to enjoy the status of High and New-Technology Enterprise and is entitled to a reduced PRC Enterprise Income Tax rate at 15%.

The number of the Group's customers increased from 150 as at 30 June 2018 to 165 as at 30 June 2019.

Financial review

Turnover

The turnover of the Group amounted to approximately HK$147.1 million for the Period, representing a decrease of approximately HK$31.3 million or 17.5% from approximately HK$178.4 million for the same period of the previous financial year. Such decrease was primarily attributable to the slowdown of customers' order as a result of the global trade dispute and tariff battle.

The slowdown of customers order hit both the Group manufacturing and trading operations. During the Period, the Group's recorded a turnover of HK$102.7 million from sales of its self-manufactured products, representing a decrease of HK$16.2 million or 13.6% as compared to that of HK$118.9 million for the same period the previous financial year. The production volume of the Group's manufacturing segment witnessed an overall decrease during the Period when compared to the same period of the previous financial year.

The Group's trading of products primarily complements sales of self-manufactured products when it provides solution kits services to its customers. During the Period, the Group's turnover derived from its trading business amounted to HK$44.4 million, representing a decrease of HK$15.0 million or 25.3% as compared to that of HK$59.4 million for the same period of the previous financial year.

Gross profit and gross profit margin

The Group's gross profit amounted to approximately HK$28.8 million for the Period, representing a decrease of approximately HK$23.5 million or 44.9% from approximately HK$52.3 million for the same period of the previous financial year. The Group's gross profit margin for the Period was approximately 19.6%, representing a decrease of approximately 9.7 percentage points as compared with the gross profit margin of approximately 29.3% for the same period of the previous financial year. Such decrease was primarily due to the increase in costs driven by the labour shortage in Dongguan, Guangdong, the PRC and additional costs incurred by the Group for new quality assurance system to cope with customers' new technological standard and requirements.

Profit before tax

The Group's selling and distribution costs for the Period amounted to approximately HK$6.3 million, which represented a decrease of approximately 8.7% from that for the same period of the previous financial year. Such decrease was primarily attributable to the decrease in commission expenses to third-party agent, which was in line with the decrease of the Group's sales to customers referred by its third-party agent. The Group's administrative expenses amounted to approximately HK$20.3 million, increased by approximately 3.6% as compared to that of approximately HK$19.6 million for the same period of the previous financial year, primarily reflecting the increase in employees' salary and welfare expenses. As a result, the Group's profit before tax decreased by approximately HK$25.1 million or 90.6% to approximately HK$2.6 million for the Period from approximately HK$27.7 million for the same period of the previous financial year.

Income tax expenses

The Group's income tax expenses for the Period was approximately HK$0.6 million, which represented a decrease of approximately 88.0%, or HK$4.4 million from approximately HK$5.0 million for the same period of the previous financial year, which was in line with the change in the Group's profit before tax as discussed above.

Profit for the Period and total comprehensive income attributable to owners of the Company

The Group's profit for the Period amounted to approximately HK$2.0 million, representing a decrease by approximately 91.2%, or HK$20.7 million as compared to approximately HK$22.7 million for the same period of the previous financial year.

Net profit margin for the Period is calculated by dividing the profit for the Period by the turnover for the Period. The Group's net profit margin for the Period was approximately 1.4% as compared to approximately 12.7% for the same period of the previous financial year. The decrease in net profit margin was primarily attributable to the decrease in the Group's revenue and the decrease in gross profit margin as discussed above.

As a result of the foregoing, and exchange differences recorded by the Group during the Period, the Group's total comprehensive income attributable to owners of the Company for the Period amounted to approximately HK$1.2 million, representing a decrease of approximately HK$20.3 million or 94.4% from approximately HK$21.5 million for the same period of the previous financial year.

Liquidity and financial resources and capital structure

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

The Group's outstanding capital commitments as at 30 June 2019 amounted to approximately HK$3.9 million (31 December 2018: HK$19.8 million). Such commitments primarily related to purchase of equipment and machineries to expand the production capacity of the Group's production facilities. Such outstanding commitments are expected to be funded primarily by the Group's internally generated resources.

As at 30 June 2019, the Group had no outstanding bank borrowings.

Please refer to note 10 to the unaudited condensed consolidated financial results of the Group in this report for the ageing analysis in respect of the trade payables of the Group as at 30 June 2019 and 31 December 2018.

The Group's gearing ratio as at 30 June 2019 and 31 December 2018, which was calculated by dividing the Group's total bank borrowings by its total equity as at those dates, were both nil due to 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 2019, the Group did not have any asset pledged while as at 31 December 2018, approximately HK$5.1 million was pledged to a bank to secure short-term bank facilities granted to the Group.

Significant investments/Material acquisitions and disposals

On 5 March 2019 (after trading hours of the Stock Exchange), Brainhole Technology Investments Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, Guangzhou Chong Dong Technology Co., Ltd.*（廣州蟲洞科技有限公司）, a company established in the PRC and wholly beneficially owned by Mr. Zhang Liang Johnson, the chairman and an executive Director and Guangzhou Weaving Communications Telecommunications Technology Limited*（廣州織網通訊科技有限公司）, a company established in the PRC entered into an agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire and Guangzhou Chong Dong conditionally agreed to sell the entire equity interest of the Target at the consideration of RMB68 million (subject to adjustments).

On 20 August 2019, an extraordinary general meeting of the Company was held during which the independent Shareholders approved the Agreement and the transactions contemplated thereunder. Completion of the Agreement is expected to take place in September 2019 and upon completion, the Target and its subsidiaries will become indirect wholly owned subsidiaries of the Company. For more details of the Agreement, please refer to the announcement and circular of the Company dated 5 March 2019 and 30 July 2019 respectively.

Other than the above, the Group has not made any significant investments or material acquisitions and disposals of subsidiaries during the Period.

Contingent liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities.

Exposure to fluctuations in exchange rates

The Group was exposed to foreign currency risks as it settled some of the sales and purchases during the Period in foreign currencies. For the six months ended 30 June 2019 and 2018, approximately 63.5% and 73.1%, 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 17.9% and 23.7%, 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 2019 and 31 December 2018 are as follows:

	Assets		**Liabilities**	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
United States dollars ("US$")	**50,133**	74,994	**3,442**	6,123
Renminbi ("RMB")	**9,092**	7,155	**87**	90
Total:	**59,225**	82,149	**3,529**	6,213

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 2019, the Group had a workforce of 447 full-time employees (including two executive Directors but excluding three independent non-executive Directors) of whom approximately 97.1% were employed in the PRC and approximately 2.9% in Hong Kong. The Group's staff costs (excluding contributions to pension schemes) for the six months ended 30 June 2019 and 2018 amounted to approximately HK$22.8 million and HK$19.1 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 employees of the Group's PRC Subsidiary, 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. The Group 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 the Group distributes, technology development and market conditions of the electronic 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 six months ended 30 June 2019 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 six months ended 30 June 2019. During the six months ended 30 June 2018, no interim dividend was paid or declared.

BUSINESS PROSPECT

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

To manage risks arising from these uncertainties, the Group intends to explore other possible business opportunities in mainland China and to expand technological applications to the smart living sector with a view to diversifying the Group's risk portfolio and expanding its business to enhance shareholders' equity. The Group believes that the proposed acquisition of Guangzhou Weaving Communications Telecommunications Technology Limited*（廣州織網通訊科技有限公司）can help the Group to implement such business development strategy. As smart living including smart home solutions and smart city services has become increasingly popular, the Group believes that the growth of the smart living business is promising. As such, the Group is proactively developing technological applications relating to smart living and smart cities related business.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 30 June 2019, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

Long positions in Shares

Name of Director	Nature of interest	Number of ordinary shares held *(Note 1)*	Approximate shareholding percentage in the issued share capital of the Company *(%)*
Mr. Zhang Liang, Johnson	Interest in a controlled corporation *(Note 2)*	599,658,000 Shares (L)	74.96

Notes:

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

(2) Mr. Zhang Liang, Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 30 June 2019, through Yoho Bravo Limited which is wholly-owned by him.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SECURITIES

As at 30 June 2019, the interests and short positions of the Substantial Shareholders (other than Directors or chief executive of the Company) in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in Shares

Name of Shareholder	Nature of interest	Number of ordinary shares held *(Note 1)*	Approximate percentage of shareholding in the issued share capital of the Company *(%)*
Yoho Bravo Limited *(Note 2)*	Beneficial interest	599,658,000 Shares (L)	74.96

Notes:

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

(2) Mr. Zhang Liang, Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 30 June 2019, through Yoho Bravo Limited which is wholly-owned by him. China Galaxy International Finance (Hong Kong) Co., Limited and its holding companies have a security interest in the said 599,658,000 Shares as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

LIST OF DIRECTORS

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

Executive Directors

Mr. Zhang Liang Johnson
Ms. Wan Duo

Independent Non-Executive Directors

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

CHANGES IN INFORMATION OF DIRECTORS

On 13 December 2018, Mr. Zhang Liang Johnson and Ms. Wan Duo were appointed as directors of Tech Elite Investments Limited, which was a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly-owned subsidiary of the Company.

On 17 January 2019, Mr. Zhang Liang Johnson and Ms. Wan Duo were appointed as directors of Brainhole Technology Investments Limited, which was a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company.

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

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the Model Code. On 8 February 2019 and 11 February 2019, which was within the black-out period in respect of the Company's annual results for the year ended 31 December 2018, the spouse of Mr. Chen Johnson Xi, an independent non-executive Director, acquired 150,000 Shares at an average share price of HK$0.81 per share and then disposed of 150,000 Shares at an average share price of HK$0.76 per share on the respective dates (collectively, the "**Dealings**"). The Dealings were inadvertently made by the spouse of Mr. Chen Johnson Xi during the black-out period and after the incident, Mr. Chen Johnson Xi has attended related professional training in order to ensure that similar incident will not reoccur in the future. Save as disclosed above and having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the Period.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Period.

COMPETING INTERESTS

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

CORPORATE GOVERNANCE PRACTICES

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

During the Period, the Company has complied with the code provisions of the CG Code as may be applicable.

SHARE OPTIONS

The Company adopted a share option scheme on 23 September 2015, the terms of which are consistent with the provisions of Chapter 17 of the Listing Rules. The Scheme is valid and effective for a period of 10 years from 9 October 2015. Its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefits of the Company and its Shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

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

No share option had been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2019.

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 to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and internal controls and risk management systems. The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Xu Liang (chairperson of the audit committee), Mr. Chen Johnson Xi and Ms. Zhang Yibo.

The audit committee has reviewed this report and the Group's unaudited condensed consolidated financial results for the Period and is of the opinion that the preparation of such results complied with 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 has purchased, redeemed or sold any of the Company's securities during the Period.

DEFINITIONS

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

"Board"	the board of Directors
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Company"	Brainhole Technology Limited 腦洞科技有限公司, 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
"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 on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules
"Period"	for the six months ended 30 June 2019
"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
"PRC Subsidiary"	東莞市佳駿電子科技有限公司(Dongguan Jia Jun Electronic Technology Company Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"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
"%"	per cent.

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

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

Hong Kong, 28 August 2019