

BRAINHOLE TECHNOLOGY LIMITED

脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2203

The logo consists of the words "BRAINHOLE" in a bold, sans-serif font above the word "TECHNOLOGY" in a smaller, all-caps, sans-serif font. The text is centered within a circular graphic element that is part of a larger, abstract digital background.

BRAINHOLE
TECHNOLOGY

INTERIM REPORT
2023

FINANCIAL RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2023 together with the unaudited comparative figures for the corresponding period in 2022, as follows:

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

For the six months ended 30 June 2023

		Six months ended 30 June	
	Notes	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	132,855	160,834
Cost of sales		<u>(109,274)</u>	<u>(131,996)</u>
Gross profit		23,581	28,838
Other income		5,406	3,747
Other losses	4	(12,235)	–
Selling and distribution costs		(4,211)	(4,885)
Administrative expenses		(25,673)	(28,676)
Finance costs	5	(3,848)	(4,227)
Loss before tax		(16,980)	(5,203)
Income tax expenses	6	(1,437)	(2,592)
Loss for the period	7	(18,417)	(7,795)
Other comprehensive expense for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		(26)	(3,780)
Total comprehensive expense for the period attributable to owners of the Company		(18,443)	(11,575)
Loss per share			
– Basic and diluted (HK cents)	8	(2.3)	(0.97)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Non-current assets			
Plant and equipment	10	48,235	49,259
Right-of-use assets		5,499	2,500
Intangible assets		891	1,010
Deferred tax assets		15,748	17,670
Prepayment for plant and equipment		905	1,770
		<u>71,278</u>	<u>72,209</u>
Current assets			
Inventories		38,915	44,888
Trade and other receivables	11	95,708	94,982
Contract assets		1,531	4,946
Amounts due from related companies	13	7,849	8,470
Digital assets		–	11,189
Financial assets at fair value through profit or loss		54,384	70,582
Bank balances and cash		44,825	26,151
		<u>243,212</u>	<u>261,208</u>
Current liabilities			
Trade and other payables	12	83,124	76,125
Contract liabilities		–	4,971
Bank borrowings		5,537	7,277
Lease liabilities		2,394	1,399
Deferred income		387	470
Loan from an immediate holding company		486	473
Loans from related companies		52,973	59,625
Income tax payables		33	34
		<u>144,934</u>	<u>150,374</u>
Net current assets		<u>98,278</u>	<u>110,834</u>
Total assets less current liabilities		<u>169,556</u>	<u>183,043</u>

	30 June 2023	31 December 2022
<i>Notes</i>	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Non-current liabilities		
Lease liabilities	3,474	1,407
Deferred tax liability	260	272
Deferred income	1,862	2,524
Loan from ultimate controlling party	80,824	77,261
	86,420	81,464
	83,136	101,579
Capital and reserves		
Share capital	8,000	8,000
Reserves	75,136	93,579
	83,136	101,579

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Merger reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
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
At 1 January 2023 (audited)	8,000	104,098	8,696	29,824	(11,272)	12,778	(50,545)	101,579
Loss for the period	-	-	-	-	-	-	(18,417)	(18,417)
Other comprehensive expense for the period:								
Exchange difference arising on translation of foreign operations	-	-	-	-	(26)	-	-	(26)
Total comprehensive expense for the period	-	-	-	-	(26)	-	(18,417)	(18,443)
Transfer to statutory reserve	-	-	2	-	-	-	(2)	-
At 30 June 2023 (unaudited)	8,000	104,098	8,698	29,824	(11,298)	12,778	(68,964)	83,136

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
OPERATING ACTIVITIES		
Loss before tax	(16,980)	(5,203)
Adjustments for:		
Amortisation of intangible assets	90	94
Amortisation of deferred income	(676)	(2,311)
Bank interest income	(53)	(105)
Depreciation of plant and equipment	3,230	7,325
Depreciation of right-of-use assets	1,438	1,731
Finance costs	3,709	4,227
Gain on disposal of plant and equipment	(4,006)	(744)
Government grants	(471)	(561)
Interest income on finance lease	–	(25)
Write-off of plant and equipment	7	–
Changes in fair value of digital assets	(3,243)	–
Changes in fair value of financial assets at fair value through profit or loss	15,478	–
Operating cash flows before movements in working capital	(1,477)	4,428
Decrease (increase) in inventories	4,740	(13,860)
(Increase) decrease in trade and other receivables	(2,817)	853
Decrease in contract assets	3,384	62
Decrease in amounts due from related companies	371	1,311
Increase in trade and other payables	8,815	7,964
Decrease in finance lease receivable	–	259
Decrease in contract liabilities	(4,971)	–
Decrease in digital assets	14,432	–
Decrease in financial assets at fair value through profit or loss	720	–
Cash generated from operations	23,197	1,017
Hong Kong profits tax paid	–	–
PRC enterprise income tax (paid) refund	(18)	265

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	23,179	1,282
INVESTING ACTIVITIES		
Acquisition of plant and equipment	(3,456)	(1,884)
Prepayment for plant and equipment	(455)	(1,847)
Settlement of payables for plant and equipment	–	(5)
Bank interest received	53	105
Proceeds from disposal of plant and equipment	5,071	10,442
Development costs paid for intangible assets	–	(57)
NET CASH GENERATED FROM INVESTING ACTIVITIES	1,213	6,754
FINANCING ACTIVITIES		
Government grants received	471	561
Repayment of principal element of lease liabilities	(1,365)	(1,732)
Repayment of interest element of lease liabilities	(129)	(140)
Repayment to an immediate holding company	–	(16,370)
Repayment to related companies	(47,893)	(11,141)
Repayment of bank borrowings	(1,570)	–
Loan obtained from an immediate holding company	–	820
Loan obtained from a related company	43,138	6,017
NET CASH USED IN FINANCING ACTIVITIES	(7,348)	(21,985)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,044	(13,949)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	26,151	42,644
Effect of foreign exchange rate changes	1,630	2,043
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	44,825	30,738

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 Suites 1801-03, 18/F, One Taikoo Place, 979 King's Road, Quarry Bay, 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 financial assets at fair value through profit or loss and loan from ultimate controlling party 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 2022.

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 2023.

HKFRS 17	Insurance Contracts
Amendments to HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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.
- d) Strategic investments segment engages in trading of digital assets and listed equity securities.

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, broadband infrastructure and smart domain segments and strategic investments segments.

Segment revenue represents revenue arising from the manufacturing and trading of electronic goods 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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Manufacturing of electronic goods	57,930	68,267
Trading of electronic goods	52,507	72,136
Broadband infrastructure and smart domain:		
– Broadband infrastructure construction services	9,797	5,711
– Commission income from promotion of broadband services	6,109	6,547
– Provision of smart domain solution services	4,599	4,997
	130,942	157,658
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	1,913	3,176
	132,855	160,834

Disaggregation of revenue from contracts with customers by timing of recognition

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Timing of revenue recognition		
At a point in time	121,145	151,947
Over time	9,797	5,711
Total revenue from contracts with customers	130,942	157,658

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		Strategic Investments		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	<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>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue	57,930	68,267	52,507	72,136	22,418	20,431	–	–	132,855	160,834
Segment (loss) profit	9,583	10,668	4,472	6,347	3,037	2,339	(12,235)	–	4,857	19,354
Unallocated income									153	526
Unallocated expenses									(21,990)	(25,083)
Loss before tax									(16,980)	(5,203)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss from) 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 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
SEGMENT ASSETS		
Manufacturing	94,566	95,810
Trading	16,772	17,401
Broadband infrastructure and smart domain	87,929	96,189
Strategic investments	54,384	81,771
Unallocated	60,839	42,246
	<hr/>	<hr/>
Total assets	314,490	333,417
SEGMENT LIABILITIES		
Manufacturing	14,125	16,276
Trading	23,247	8,795
Broadband infrastructure and smart domain	53,193	61,465
Unallocated	140,789	145,302
	<hr/>	<hr/>
Total liabilities	231,354	231,838

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 deferred tax assets, 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, loan from an immediate holding company, loans from related companies and loan from ultimate controlling party.

4. OTHER LOSSES

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Changes in fair value of digital assets	(3,243)	–
Changes in fair value of financial assets at fair value through profit or loss	15,478	–
	12,235	–

5. FINANCE COSTS

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interests on:		
Lease liabilities	129	140
Bank borrowings	138	–
Loan from an immediate holding company	18	921
Loans from related companies	–	1,240
Loan from ultimate controlling party	3,563	–
Loss on early repayment of loan from an immediate holding company	–	971
Loss on early repayment of loan from a related company	–	955
	3,848	4,227

6. 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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Current tax:		
Hong Kong	–	–
The PRC	18	202
	<hr/>	<hr/>
	18	202
Under provision in prior years:		
Hong Kong	–	18
The PRC	–	–
	<hr/>	<hr/>
	–	18
Deferred tax	1,419	2,372
	<hr/>	<hr/>
	1,437	2,592
	<hr/>	<hr/>

- (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 2023 and 2022.
- (ii) For the six months ended 30 June 2023 and 2022, 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 2023 and 2022, 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%.

7. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Amount of inventories recognised as expenses	97,814	121,990
Amortisation of intangible assets	90	94
Depreciation of plant and equipment	3,230	7,325
Depreciation of right-of-use assets	1,438	1,731
Research and development costs (<i>Note (i)</i>)	4,855	5,468
Write-off of plant and equipment	7	–
Government grants (<i>Note (ii)</i>)	(471)	(561)
Gain on disposal of plant and equipment	(4,006)	(744)
Staff costs (including Directors' emoluments)		
Salaries and allowances	20,668	22,214
Retirement benefits scheme contributions	2,668	2,996
	<hr/>	<hr/>
Total staff costs	23,336	25,210

Notes:

- (i) The research and development costs included staff cost of approximately HK\$3,085,000 (six months ended 30 June 2022: HK\$3,806,000) 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 2023 and 2022.

8. 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	
	2023 (Unaudited)	2022 (Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share	<u>HK\$(18,417,000)</u>	<u>HK\$(7,795,000)</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 2023 and 2022 as there were no dilutive potential ordinary shares outstanding during these periods.

9. 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 2022: nil).

10. PLANT AND EQUIPMENT

During the Period, the Group acquired plant and equipment of approximately HK\$4,746,000 (six months ended 30 June 2022: HK\$3,044,000).

During the Period, plant and equipment with a net carrying value of approximately HK\$1,065,000 (six months ended 30 June 2022: HK\$9,698,000) were disposed of by the Group, for cash proceeds of approximately HK\$5,071,000, resulting in a net gain on disposals of approximately HK\$4,006,000 (six months ended 30 June 2022: HK\$744,000).

Plant and equipment with a net carrying value of approximately HK\$7,000 were written off by the Group during the Period (six months ended 30 June 2022: nil).

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	91,673	91,083
Less: allowance for impairment of trade receivables	(16,228)	(16,700)
	75,445	74,383
Deposits and other receivables	11,144	2,000
Receivables for disposal of plant and equipment and non-current assets classified as held for sale	–	972
Value-added tax recoverable	2,659	5,793
Prepayments	6,460	11,834
Total trade and other receivables	95,708	94,982

Included in other receivables of approximately HK\$3,651,000 was due from a related company, Skynova International Limited, of the Group as at 30 June 2023 (31 December 2022: nil). The amount is unsecured, non-interest bearing and repayable on demand.

As at 30 June 2023, the gross amount of trade receivables arising from contracts with customers and operating leases amounted to approximately HK\$72,290,000 (31 December 2022: HK\$87,107,000) and HK\$3,155,000 (31 December 2022: HK\$3,976,000) 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 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
0 to 30 days	37,671	25,535
31 to 90 days	18,008	20,121
91 to 365 days	11,960	16,676
Over 365 days	7,806	12,051
	75,445	74,383

12. TRADE AND OTHER PAYABLES

	As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
Trade payables	66,452	59,129
Payables for acquisition of plant and equipment	1,798	13
Accruals of costs for contract works	93	2,685
Accrued staff costs	3,483	5,266
Payable for commission	2,114	1,114
Accruals and other payables	9,184	7,918
	83,124	76,125

Included in other payables, amount of approximately HK\$17,000 represented interest payable to loan from an immediate holding company as at 30 June 2023 (31 December 2022: HK\$12,000).

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 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
Within 3 months	34,855	26,452
4 to 6 months	3,516	3,239
7 to 12 months	5,000	4,139
Over 1 year	23,081	25,299
	66,452	59,129

The credit period on purchases of goods ranged from 30 to 180 days (31 December 2022: 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 2023, 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\$3,909,000 (31 December 2022: HK\$7,056,000).

14. RELATED PARTY DISCLOSURES

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

(a) Related parties' transactions

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue from broadband infrastructure construction services		
遵義實地房地產開發有限公司	590	–
天津金河灣置業有限公司	469	–
廣州豐實房地產開發有限公司	64	–
惠州市現代城房地產發展有限公司	4,713	–
武漢平安中信置業有限公司	–	468
重慶實地房地產開發有限公司	857	–
佛山實地房地產開發有限公司	803	–
天津實地房地產開發有限公司	135	–
廣州市傑星實業有限公司	78	–
清遠實地房地產開發有限公司	16	–
茂名晟大置業有限公司	75	–
重慶渝申地實業有限公司	849	–
Guangzhou R&F Properties Co., Ltd. and its subsidiaries, joint ventures and associates (the "Guangzhou R&F Group")	4,927	5,014

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Service costs charged by		
廣州富力鼎盛置業發展有限公司		
富力君悅大酒店分公司 (“廣州富力鼎盛置業”)	72	48
廣東實地物業管理有限公司蘿崗分公司	49	82

(b) Related parties' balances

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

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Amounts due from related companies (trade-nature)		
遵義實地房地產開發有限公司	4,282	4,437
天津金河灣置業有限公司	135	345
廣東譽豐地產發展有限公司	349	361
廣州豐實房地產開發有限公司	-	276
惠州市現代城房地產發展有限公司	662	683
重慶實地房地產開發有限公司	883	1,127
武漢平安中信置業有限公司	536	553
深圳富茅房地產開發有限公司	12	12
實地地產集團有限公司	8	8
廣州哈奇智能科技有限公司	102	105
三亞巨源旅業開發有限公司	320	330
太原和泰盛瑞置業有限公司	82	85
廣東實地物業管理有限公司蘿崗分公司	2	2
周口實地房地產開發有限公司	34	146
天津實地房地產開發有限公司	45	-
廣州市傑星實業有限公司	82	-
清遠實地房地產開發有限公司	17	-
茂名晟大置業有限公司	78	-
重慶渝申地實業有限公司	220	-
	7,849	8,470
Balances with Guangzhou R&F Group		
- Included in trade receivables	19,081	11,721
- Included in contract assets	1,530	1,029

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Balances with 廣州富力鼎盛置業 – Included in trade payables	26	34
Balance with 廣州富力興盛置業發展有限公司 ("廣州富力興盛置業") – Included in trade payables	31	–
Balance with 廣州富力美好置業發展有限公司 ("廣州富力美好置業") – Included in trade payables	5	–
Balances with 廣東實地物業管理有限公司 – Included in prepayments	46	44
– Included in trade payables	56	29

The Guangzhou R&F Group, 廣州富力鼎盛置業, 廣州富力興盛置業 and 廣州富力美好置業 are controlled, jointly controlled or significantly influenced by the close family member of the Group's controlling shareholder, Mr. Zhang. There are various credit terms granted to/from the related parties on mutually agreed basis.

(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 2023 and 2022.

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

(d) Loan from an immediate holding company

In 2019, the Company obtained a loan facility up to HK\$38,000,000 from its immediate holding company. The loan facility is unsecured, bearing interest at a fixed rate of 2% per annum and repayable in July 2021. In July 2021, the maturity date of the loan facility was extended to July 2023.

For the six months ended 30 June 2022, the Group repaid a portion of the above mentioned facility loan of principal amount of approximately HK\$16,370,000 (six months ended 30 June 2023: nil) which led to the loss on early repayment of approximately HK\$971,000 (six months ended 30 June 2023: nil) recognized in profit and loss, and made another drawdown of approximately HK\$820,000 (six months ended 30 June 2023: nil).

As at 30 June 2023, the outstanding loan principal amount was approximately HK\$486,000 (31 December 2022: HK\$486,000) and the Group had undrawn facilities of approximately HK\$37,514,000 (31 December 2022: HK\$37,514,000). The Group has incurred interest expense of approximately HK\$18,000 for the Period (six months ended 30 June 2022: HK\$242,000) and the interest payable to its immediate holding company was approximately HK\$17,000 as at 30 June 2023 (31 December 2022: HK\$12,000).

The loan from an immediate holding company was carried at amortised cost using the effective interest method. The effective interest rate applied was 7.92% per annum.



(e) Loans from related companies

In December 2020, the Group obtained loan from 廣州普及房地產代理有限公司 with principal amount of RMB46,146,000 which is unsecured, interest free and repayable in December 2023. 廣州普及房地產代理有限公司 is beneficially owned by the Group's controlling shareholder, Mr. Zhang.

For the six months ended 30 June 2022, the Group repaid a portion of the loan from 廣州普及房地產代理有限公司 of principal amount of approximately HK\$11,141,000 (six months ended 30 June 2023: HK\$5,593,000) which led to the loss on early repayment of approximately HK\$955,000 (six months ended 30 June 2023: nil) recognized in profit and loss, and made another drawdown of approximately HK\$6,017,000 (six months ended 30 June 2023: HK\$43,138,000). As at 30 June 2023, the outstanding loan principal amount was approximately HK\$52,973,000 (31 December 2022: HK\$17,325,000).


In December 2022, the Group obtained another loan from Skynova International Limited with principal amount of HK\$42,300,000 which is unsecured, interest free and contains a repayment on demand clause. Skynova International Limited is beneficially owned by the Group's controlling shareholder, Mr. Zhang.

During the Period, the Group had fully repaid the above mentioned loan. As at 30 June 2023, the outstanding loan principal amount was nil (31 December 2022: HK\$42,300,000).

(f) Loan from ultimate controlling party

From November to December 2022, the Group obtained loan from ultimate controlling party, Mr. Zhang, with principal amount of HK\$100,500,000 which is unsecured, interest free and repayable in November 2025.

As at 30 June 2023, the outstanding loan principal amount was approximately HK\$100,500,000 (31 December 2022: HK\$100,500,000). The Group has incurred interest expense of approximately HK\$3,563,000 for the Period (six months ended 30 June 2022: nil).



The loan from ultimate controlling party was carried at amortised cost using the effective interest method. The effective interest rate applied was 9.43% per annum.

15. CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: nil).

16. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS

The unaudited condensed consolidated financial results were approved and authorised for issue by the Board on 30 August 2023.

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2023, the Group had acquired and disposed of certain listed equity securities. Details of which are set out in the Company's announcements dated 6 July 2023, 10 July 2023, 11 July 2023, 13 July 2023, 1 August 2023, 3 August 2023, 4 August 2023, 7 August 2023, 10 August 2023, 16 August 2023, 17 August 2023 and 25 August 2023 respectively.

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 enduse 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 keener competition.

Since second half of 2022, the increasing concern on inflation and the rise of interest rate put downward pressure on the consumer market. The traditional market of consumer electronic products such as smartphone and personal computer showed insufficient impetus after a period of high economic growth. This significantly affected the performance of both manufacturing and trading segments. Hence, the Group's revenue from manufacturing and trading of semiconductors for the Period recorded a decrease of approximately 21.3% as compared to the corresponding period of the previous financial year.



During the Period, the revenue from the manufacturing business of semiconductors decreased by approximately 15.1% 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 an integrated solution provider and is engaged in the trading of semiconductors which are required by customers specifically even though these semiconductors are not manufactured by the Group. The product portfolio required by customers can be varied from time to time. During the Period, the revenue from trading of semiconductors decreased by approximately 27.2% as compared to the corresponding period of the previous financial year.

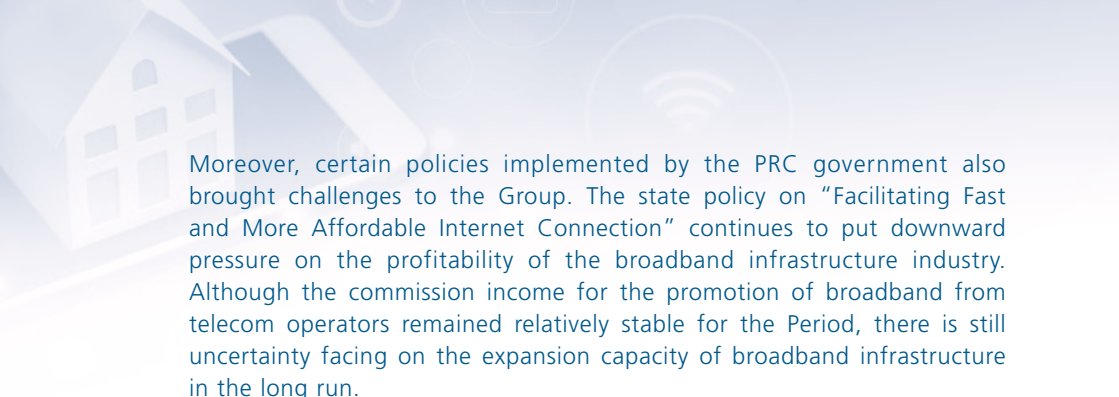
In addition, the continuous tension of the global trade disputes and the geopolitical complications around the world caused uncertainties on the recovery of the global economy. There is still no sign as to when the consumer market will gain the momentum of growth. The Group's customers for semiconductors generally slowed down their new purchases. The full rebound 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 reserves and development projects.

In view of this, the Group has been adopting more cautious and conservative approach on cost management and new projects. The Group has been targeting to allocate our resources to more profitable projects to optimize the product portfolio.



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. Although the commission income for the promotion of broadband from telecom operators remained relatively stable for the Period, there is still uncertainty facing on the expansion capacity of broadband infrastructure in the long run.

(iii) Strategic investments business

The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group aims to leverage our own advantages in the field of smart technology to capture investment opportunities and actively diversify the investments in the field of innovative technologies, in order to create greater value for the Shareholders.

The Group has been making investments in cryptocurrencies and listed equity securities during the Period.

Cryptocurrencies

On 31 October 2022, the Hong Kong Government issued the Policy Statement on the Development of Virtual Assets in Hong Kong, stating that the Hong Kong Government recognizes the potential of distributed ledger technologies and Web 3.0 to become the future trends in the development of finance and commerce. The Hong Kong Government is committed to providing a facilitating environment for promoting the sustainable development of the virtual asset sector through the calibration of a legal and regulatory regime.

The Group agrees with the Hong Kong Government’s views on the development of virtual assets in Hong Kong. The Group always hopes to leverage our own advantages in the field of smart technology to identify the opportunity of diversification and timely capture the new opportunities brought by blockchain and Web 3.0. Therefore, the Board has been exploring opportunities to purchase cryptocurrencies as a preparation and starting point for diversifying investments in the field of innovative technologies.

During the Period, the Company realised its investment in cryptocurrencies previously held since 2022 and disposed of an aggregate of 1,202.45 units of Ether through the open market at an aggregate consideration of approximately US\$1.8 million (equivalent to approximately HK\$14.2 million) (excluding transaction costs). Please refer to the announcement of the Company dated 13 February 2023 for further details of the disposal of cryptocurrencies.

The Group further acquired 174 units of Ether and 17.17 units of Bitcoin at an aggregate consideration of approximately US\$0.7 million (equivalent to approximately HK\$5.4 million) and disposed of all units of Ether and Bitcoin with an aggregate sale proceed of approximately US\$0.73 million (equivalent to approximately HK\$5.7 million) during the Period.

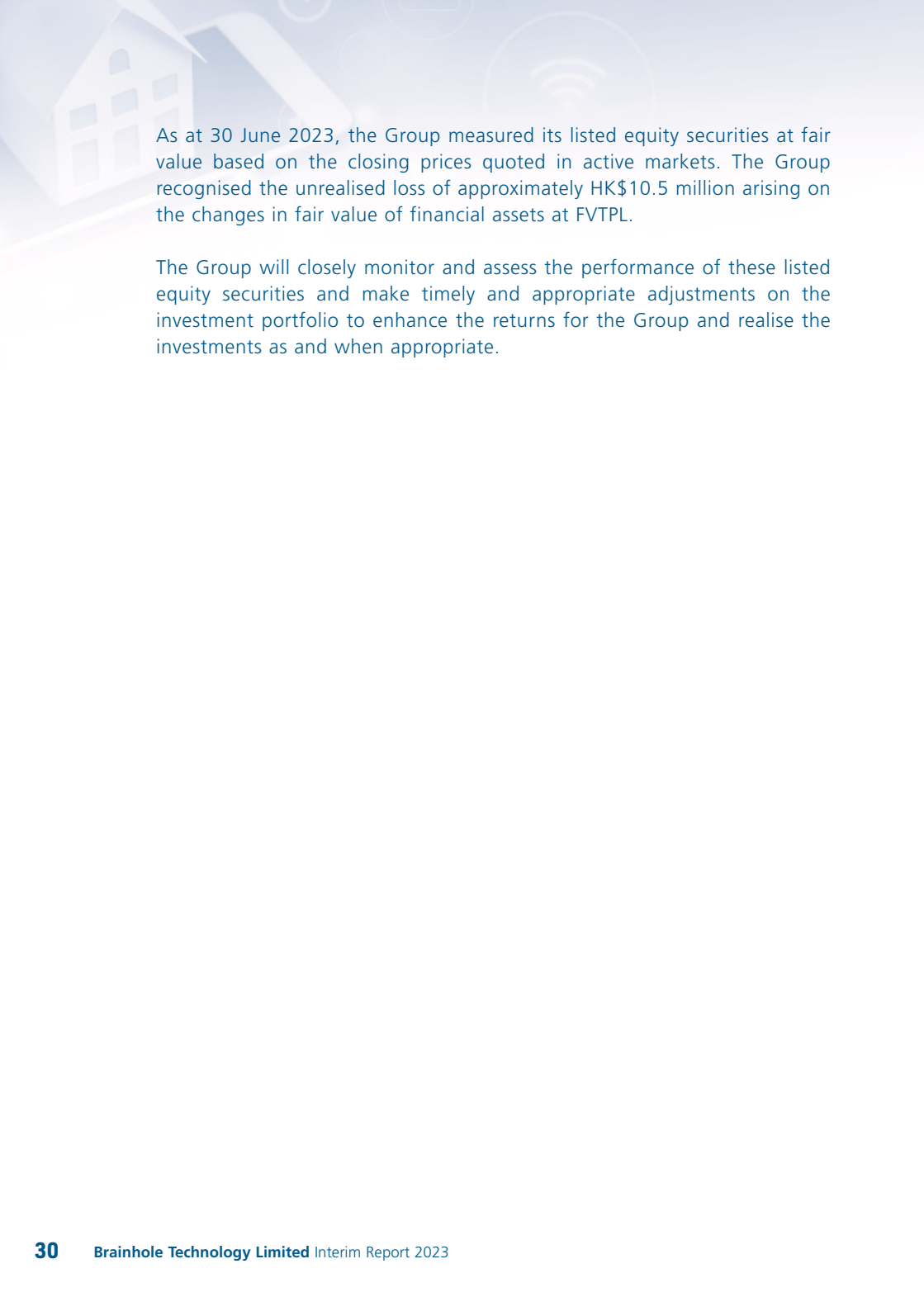
The above disposals resulted in net realised gain of approximately HK\$2.5 million for the Period which was recorded in other losses in the consolidated statement of profit or loss and other comprehensive income.

Nevertheless, the Group still holds positive view on the future prospect of virtual assets moving into the areas of Web 3.0 and metaverse. The Group will strive to enhance and diversify its investment portfolio and increase the investment on cryptocurrencies as and when appropriate.

Listed equity securities

The listed equity investments mainly comprises leading technology companies and high quality large conglomerates listed in the United States and Hong Kong.

During the Period, the Group acquired US-listed equity securities and Hong Kong-listed equity securities with the aggregate acquisition costs of approximately HK\$131.2 million and disposed of shareholdings of US-listed equity securities and Hong Kong-listed equity securities with the aggregate carrying amounts of approximately HK\$136.9 million. The net sale proceeds of the disposals was approximately HK\$131.9 million, resulting in net realised loss of approximately HK\$5.0 million which recorded in the changes in fair value of financial assets at fair value through profit or loss ("FVTPL") in the consolidated statement of profit or loss and other comprehensive income.



As at 30 June 2023, the Group measured its listed equity securities at fair value based on the closing prices quoted in active markets. The Group recognised the unrealised loss of approximately HK\$10.5 million arising on the changes in fair value of financial assets at FVTPL.

The Group will closely monitor and assess the performance of these listed equity securities and make timely and appropriate adjustments on the investment portfolio to enhance the returns for the Group and realise the investments as and when appropriate.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of approximately HK\$132.9 million during the Period, as compared to the revenue of approximately HK\$160.8 million for the six months ended 30 June 2022. The decrease in revenue was approximately HK\$27.9 million or 17.4% when compared to the corresponding period of the previous financial year. It was primarily attributable to the decrease in the revenue of semiconductor business.

For semiconductor business, performance of both manufacturing and trading segments were significantly affected by the traditional market of consumer electronic products such as smartphone and personal computer, after a period of robust economic growth, are showing insufficient impetus impacted by the factors of increasing concerns on inflation and the rise of interest rate. As a result, the total revenue from the semiconductor business for the Period amounted to approximately HK\$110.4 million, representing a decrease of approximately HK\$30.0 million or 21.3%, as compared to the total revenue of approximately HK\$140.4 million for the six months ended 30 June 2022.

During the Period, the Group recorded revenue of approximately HK\$57.9 million from sales of its self-manufactured semiconductors, representing a decrease of approximately HK\$10.4 million or 15.1% as compared to that of approximately HK\$68.3 million for the six months ended 30 June 2022.

The Group's trading of semiconductors primarily complements sales of self-manufactured semiconductors when providing integrated solution services to its customers. During the Period, the Group's revenue derived from its trading of semiconductors amounted to approximately HK\$52.5 million, representing a decrease of approximately HK\$19.6 million or 27.2% as compared to that of approximately HK\$72.1 million for the six months ended 30 June 2022.

On the other hand, the revenue of broadband infrastructure and smart domain segment contributed by Guangzhou Weaving Group amounted to approximately HK\$22.4 million during the Period, compared to the revenue of approximately HK\$20.4 million for the six months ended 30 June 2022. The increase of approximately HK\$2.0 million or 9.7% was mainly because there were slightly more 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\$23.6 million for the Period, representing a decrease of approximately HK\$5.2 million or 18.2% from approximately HK\$28.8 million for the six months ended 30 June 2022. It was mainly attributable to the decrease in revenue and gross profit margin of the semiconductors business.

The Group's overall gross profit margin for the Period was approximately 17.7%, representing a decrease of approximately 0.2 percentage points, as compared with gross profit margin of approximately 17.9% for the six months ended 30 June 2022.

For semiconductor business, the Group recorded gross profit of approximately HK\$13.4 million during the Period, as compared to the gross profit of approximately HK\$18.8 million for the six months ended 30 June 2022. The decrease in gross profit was approximately HK\$5.4 million or 28.5% when compared to the corresponding period of the previous financial year. The Group's gross profit margin of the semiconductor business also exhibited a slight decrease of approximately 1.2 percentage point, from approximately 13.4% for the six months ended 30 June 2022 to approximately 12.2% for the Period. Such decrease in gross profit and gross profit margin was primarily the result of sales of varying types and volumes of self-manufactured and trading products (which carry different gross profit margins) sold by the Group to the customers.

Meanwhile, Guangzhou Weaving Group contributed gross profit of approximately HK\$10.1 million for the Period, representing a slight increase of approximately HK\$0.1 million or 1.0% from approximately HK\$10.0 million for the six months ended 30 June 2022. The gross profit margin of Guangzhou Weaving Group was recorded at approximately 45.2% and 49.1% respectively for the Period and for the six months ended 30 June 2022. The decrease in gross profit margin was mainly due to the decrease of rental income from broadband infrastructure, which had a comparatively higher gross margin in this segment.

Changes in fair value of financial assets at FVTPL

As discussed above, the Group recorded net realised loss of approximately HK\$5.0 million arising from the disposals of part of listed equity securities and fair value loss of approximately HK\$10.5 million on the listed equity securities held as at 30 June 2023. The aggregate amount of approximately HK\$15.5 million was recognised in other losses in the consolidated statement of profit or loss and other comprehensive income.

Selling and Distribution Costs

The Group's selling and distribution costs for the Period was approximately HK\$4.2 million, representing a decrease of approximately HK\$0.7 million or 13.8% from approximately HK\$4.9 million for the six months ended 30 June 2022. The amount mainly represented the selling and distribution costs of semiconductors business and 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 of semiconductors by third-party agent referrals.

Administrative Expenses

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

The Group's administrative expenses for the Period was approximately HK\$25.7 million, decreased by approximately HK\$3.0 million or 10.5%, as compared to that of approximately HK\$28.7 million for the six months ended 30 June 2022. 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\$1.4 million, as compared to income tax expenses of approximately HK\$2.6 million for the six months ended 30 June 2022. Such amount of income tax expenses for the six months ended 30 June 2023 and 2022 were primarily attributable to the deferred tax impact arising from the disposal of plant and equipment.

Loss for the Period

As a result of the foregoing, the Group's net loss for the Period was approximately HK\$18.4 million, representing an increase of approximately HK\$10.6 million when compared to the net loss of approximately HK\$7.8 million for the six months ended 30 June 2022.

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 2023 amounted to approximately HK\$3.9 million (31 December 2022: HK\$7.1 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 2023, the Group had outstanding bank borrowing of approximately HK\$5.5 million (31 December 2022: HK\$7.3 million), which comprised an unsecured fixed rate RMB loan for a term of one year.

Please refer to note 12 to the unaudited condensed consolidated financial results in this report for the ageing analysis in respect of the trade payables of the Group as at 30 June 2023 and 31 December 2022.

The Group's gearing ratio as at 30 June 2023, which was calculated by dividing its total bank borrowings by its total equity, was 6.7%, while the gearing ratio as at 31 December 2022 was 7.2%.

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 2023, the Group did not have any pledged assets (31 December 2022: nil).

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the paragraphs headed “Cryptocurrencies” and “Listed equity securities” in this Management Discussion and Analysis, the Group did not make any significant investments or material acquisitions and disposals of subsidiaries during the Period.

CONTINGENT LIABILITIES


As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: 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 2023 and 2022, approximately 28.2% and 34.6%, 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 2.3% and 9.7%, 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 2023 and 31 December 2022 are as follows:

	Assets		Liabilities	
	30 June 2023 <i>HK\$’000</i> (Unaudited)	31 December 2022 <i>HK\$’000</i> (Audited)	30 June 2023 <i>HK\$’000</i> (Unaudited)	31 December 2022 <i>HK\$’000</i> (Audited)
United States dollars (“US\$”)	70,820	86,924	2,193	4,218
Renminbi (“RMB”)	27	57	–	–
Total:	70,847	86,981	2,193	4,218



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 2023, the Group had a workforce of 188 full-time employees (including two executive Directors but excluding three independent non-executive Directors) of whom approximately 94.7% were employed in the PRC and approximately 5.3% in Hong Kong. The Group's staff costs (including Directors' emoluments) for the six months ended 30 June 2023 and 2022 amounted to approximately HK\$23.3 million and HK\$25.2 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 2022: nil).

BUSINESS PROSPECT

In the coming year, the global economic environment is expected to be complex and the prospect of the Group's semiconductors business will be full of challenges. 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 increasing concerns on inflation and the rise of interest rate will put further downward pressure on the consumer market. The replacement cycle for the consumer electronic products such as smartphone and personal computer has generally been prolonged. There is still no sign as to when the consumer market will gain the momentum of growth. These in turn affect the Group's customers of semiconductors to take a prudential approach for the plan of new purchases.

Although the enhanced 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 demanded from customers and more competitive market regionally and globally.

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 China's 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 real estate 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 an intergrated smart domain solution provider. The Group has been looking for 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 seek for other acquisition targets, including but not limited to startups or growing companies with high potential and leading technologies. On the other hand, the Group will also keep observing market and industry development trends, grasp investment opportunities brought by technological innovation, and actively plan and consider to diversify the investments in the field of innovative technologies and Web 3.0 as and when appropriate, in order to facilitate the technological development and create greater value for the Shareholders.

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

As at 30 June 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

Long positions in the Shares

Name of Director	Nature of interest	Number of ordinary shares held <i>(Note 1)</i>	Approximate shareholding percentage in the issued share capital of the Company <i>(%)</i>
Mr. Zhang Liang Johnson	Interest in a controlled corporation <i>(Note 2)</i>	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 2023, through Yoho Bravo Limited which is wholly-owned by him.

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

As at 30 June 2023, the interests and short positions of substantial Shareholders and other persons (other than Directors or chief executive of the Company) in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the Shares

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

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 30 June 2023, through Yoho Bravo Limited which is wholly-owned by him. China Galaxy International Securities (Hong Kong) Co., Limited and its holding companies have a security interest in the said 599,658,000 Shares as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.



LIST OF DIRECTORS

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

Executive Directors

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

Independent Non-Executive Directors

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

CHANGES IN INFORMATION OF DIRECTORS

Saved as the information disclosed below, there is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Period.

The remuneration package of Ms. WAN Duo, an executive Director, has been increased from HK\$480,000 to HK\$1,362,000 per annum with effect from 1 July 2023.

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.

MANAGEMENT CONTRACTS

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

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 during the Period.

SHARE OPTION SCHEME

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

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

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

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2023.



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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DEFINITIONS

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

"Board"	the board of Directors
"CG Code"	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 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
“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 2023

“PRC”

the People’s Republic of China, save that, for the purpose of this report and unless the context otherwise requires, references in this report do not include Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan

“RMB”

Renminbi, the lawful currency of the PRC

“SFO”

Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Share(s)”

ordinary share(s) of HK\$0.01 each in the share capital of the Company

“Shareholder(s)”

holder(s) of the Shares

“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, 30 August 2023