BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

Annual Report
2021

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Contents

Corporate Profile

The Group is principally engaged in the assembly, packaging and sales of self-manufactured discrete semiconductors with a primary focus on applications for smart consumer electronic devices, and trading of semiconductors sourced from third-party suppliers. The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 September 2014 and its issued shares are listed on the Main Board.

The Group's self-manufactured products are mainly used in consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies manufactured by its customers who are mainly OEM/ODM manufacturers for well-known consumer electronic brands mainly in Korea and the PRC.

The Group's strong reputation for its reliability and ability to provide high-quality products, value-added solution kits services and engineering solutions services, as well as comprehensive customer service has been a key contributor to its growth. With technologically advanced production lines and strong technology expertise, the Group is able to offer customisable products which enable it to satisfy multiple end-market product requirements and the diverse specifications of its customers, which in turn contribute to its continued success.

On the other hand, the Group is also 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 PRC. Its smart domain solution includes hardware for security and identification purposes, software for residence management, energy saving and community services. As smart living has become increasingly popular, the Group believes that the smart domain business has high potential of growth.

Corporate Information

BOARD OF 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

COMPANY SECRETARY

Mr. Kwong Lun Kei Victor

AUTHORISED REPRESENTATIVES

Ms. Wan Duo
Mr. Kwong Lun Kei Victor

AUDIT COMMITTEE

Mr. Xu Liang *(Chairperson)*
Mr. Chen Johnson Xi
Ms. Zhang Yibo

REMUNERATION COMMITTEE

Mr. Chen Johnson Xi *(Chairperson)*
Mr. Xu Liang
Ms. Zhang Yibo
Ms. Wan Duo

NOMINATION COMMITTEE

Ms. Zhang Yibo *(Chairperson)*
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Wan Duo

AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants
43rd Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Dah Sing Bank
China CITIC Bank

REGISTERED OFFICE

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Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office A, 31st Floor
Billion Plaza II
10 Cheung Yue Street
Cheung Sha Wan
Kowloon
Hong Kong

HONG KONG LEGAL ADVISER

Michael Li & Co.
19/F., Prosperity Tower
No. 39 Queen's Road Central
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICES

Principal share registrar

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Hong Kong branch share registrar

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

2203

WEBSITE OF THE COMPANY

www.brainholetechnology.com

On behalf of the Board, I am pleased to present the audited financial results of the Group for the year ended 31 December 2021.

BUSINESS OVERVIEW

In 2021, with the launch of vaccines and the implementation of economic recovery measures, the Group's operation, along with the global economic activities and the semiconductor market, was gradually recovered from the adverse impact of COVID-19. The revenue of both semiconductor segments has recorded an increase as compared to the previous financial year.

However, there was outbreak of another wave of Omicron variant of COVID-19. The continuous tension of the global trade dispute and tariff battle between China and the United States still caused uncertainties to the global economy. The Group's customers of semiconductors generally slowed down their new order placing when compared to that before the outbreak of COVID-19. The full recovery of the orders from the customers remains uncertain.

The strong adoption across a wide range of high technology, including 5G networks, artificial intelligence, internet of things, cloud computing and big data processing drives the global market demand of electronic devices and in turn stimulates the global semiconductor industry ecosystem. In fact, semiconductor manufacturing consists of a series of processes. The assembly and packaging of discrete semiconductors, being the principal activities of the Group, are one of and in the downstream of the whole manufacturing process. Not like the upstream manufacturing process, such as wafer fabrication, which is dominated by several giant multinational companies, the Group is in the market of keen competition with both the large players and smaller local players. Moreover, the Group's production line of self-manufactured semiconductors continued facing rapid technological changes and evolving industry standards.

As challenges bring opportunities, however, we strived harder to prepare ourselves and actively leverage our strength to diversify business portfolio. The Group expanded its business to smart living sector since 2019. Guangzhou Weaving Communications Telecommunications Technology Limited* (廣州織網通訊科技有限公司) ("Guangzhou Weaving"), a 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.

Due to its business nature, the broadband infrastructure and smart domain business were relatively less susceptible to the impact of the COVID-19 pandemic than the semiconductors business. As the strong adoption across a wide range of high technology also brings new business opportunities for smart living sector, we are optimistic that the smart domain business will further enhance shareholders' equity. Furthermore, the Group successfully partnered with the domestic high-tech leading players to explore the business opportunities on providing the smart domain solution together, especially for the smart campus projects.

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

Moreover, the more stringent deleveraging policy in the PRC real estate industry since the second half of 2021 also affects some customers of Guangzhou Weaving, which are the property developers in the PRC. The tight liquidity of the customers in the real estate industry gave rise to the longer completion period of construction service projects and the increase of trade receivable turnover days. The Group will closely monitor the risk exposure and credit risk of the customers, by continuous update of the operating situation of them.

BUSINESS OUTLOOK

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

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

On the other hand, under China's "14th Five-Year Plan", innovation and technology development have been elevated to core national priorities and strategic supporting pillar to its economic development. It is foreseeable that 5G networks, artificial intelligence, internet of things, cloud computing and big data processing will be benefited continuously from the PRC government's dedicated support in its development. We believe that the wide range of technological innovation will drive the emerging applications in the smart living sector. In view of this, the Group will capitalise on the fast-growing demand of technological application in the smart living sector.

Looking forward, Guangzhou Weaving is dedicated to be a smart domain solution integrator. The Group will keep searching for other acquisition or investment targets, primarily focusing on areas of smart living related technology and electronic parts for artificial intelligence and internet of things, which could have potential business synergy with Guangzhou Weaving and semiconductor business or those being encouraged and supported by the PRC government.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our staff for their hard work and the support of the Group from all our Shareholders and stakeholders.

Zhang Liang Johnson
Chairman

Hong Kong, 31 March 2022

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 drives the need of technologies with higher power efficiency, speed and more complex functionalities. This stimulated the global market demand for the semiconductor industry.

In general, semiconductor manufacturing consists of a series of processes, comprising of design of the integrated circuit ("IC"), preliminary testing of the viability of the design, wafer fabrication, assembly and packaging and final testing. The Group is principally engaged in the assembly, packaging and sales of its self-manufactured discrete semiconductors and trading of semiconductors sourced from third-party suppliers. The assembly and packaging are one of and in the downstream of the whole manufacturing process transforming semiconductor chips into functional devices which are used in a variety of end-use applications.

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

During the Period, with the launch of vaccines and the implementation of economic recovery measures, the global economy and the semiconductor market have gradually recovered from the adverse impact of COVID-19. Hence, the Group's revenue from manufacturing and trading of semiconductors for the Period increased by approximately 14.7% as compared to the previous financial year.

During the Period, the revenue from the manufacturing business of semiconductors increased by approximately 6.0% as compared to the previous financial year. In addition to its manufacturing business, the Group continued to operate its trading business during the Period, primarily to supplement its sales of self-manufactured products. The Group acts as a solution kits integrator and is engaged in trading of semiconductors that its customers specifically require. These semiconductors, however, are not manufactured by the Group. The product mix required by customers varies from time to time. During the Period, the revenue from trading of semiconductors increased by approximately 29.8% as compared to the previous financial year.

However, the outbreak of another wave of Omicron variant of COVID-19 and uncertainties caused by the continuous tension of the global trade dispute and tariff battle between China and the United States put continuous downward pressure to the global economy. The Group's customers of semiconductors generally slowed down their new order placing when compared to that before the outbreak of COVID-19. The full recovery of the orders from the customers remains uncertain.

(ii) **Broadband infrastructure and smart domain business**

Guangzhou Weaving, the wholly-owned subsidiary of the Group, is principally engaged in broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities) in the PRC. Its smart domain solution includes hardware for security and identification purposes, software for residence management, energy saving and community services.

Due to its business nature, the broadband infrastructure construction and the provision of integrated solution for smart domain application were relatively less susceptible to the impact of the COVID-19 pandemic than the semiconductors business. Since 2020, the Group successfully partnered with the domestic high-tech leading players to explore the business opportunities on providing the smart domain solution together, especially for the smart campus projects. The contribution from these smart domain solution projects gave rise to the increase of revenue from this business segment during the Period.

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

Moreover, some customers of Guangzhou Weaving, which are the property developers in the PRC, were adversely affected by the more stringent deleveraging policy in the PRC real estate industry since the second half of 2021. The tight liquidity of the customers in the real estate industry led to the longer completion period of construction service projects and the increase of trade receivable turnover days. The Group will closely monitor the risk exposure and credit risk of the customers, by continuous update of the operating situation of them.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of approximately HK$321.5 million during the Period, as compared to the revenue of approximately HK$261.8 million for the year ended 31 December 2020. The increase in revenue was approximately HK$59.7 million or 22.8% when compared to the previous financial year. It was primarily attributable to the increase in the revenue of both semiconductor business and broadband infrastructure and smart domain business.

For semiconductor business, both manufacturing and trading segments also benefited from the recovery of the semiconductor market from the impact of COVID-19. During the Period, the Group recorded revenue of approximately HK$129.5 million from sales of its self-manufactured semiconductors, representing an increase of approximately HK$7.3 million or 6.0% as compared to that of approximately HK$122.2 million for the year ended 31 December 2020.

The Group's trading of semiconductors primarily complements sales of self-manufactured semiconductors when it provides solution kits services to its customers. During the Period, the Group's revenue derived from its trading of semiconductors amounted to approximately HK$91.7 million, representing an increase of approximately HK$21.0 million or 29.8% as compared to that of approximately HK$70.7 million for the year ended 31 December 2020.

On the other hand, the revenue of broadband infrastructure and smart domain segment contributed by Guangzhou Weaving Group amounted to approximately HK$100.3 million during the Period, compared to the revenue of approximately HK$68.9 million for the year ended 31 December 2020. The increase of approximately HK$31.4 million or 45.5% was mainly because there were more projects for the 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$54.1 million for the Period, representing an increase of approximately HK$20.6 million or 61.5% from approximately HK$33.5 million for the year ended 31 December 2020. It was mainly attributable to the increase in revenue and gross profit margin of semiconductors business, which led to the gross profit of semiconductor business having increased from approximately HK$12.5 million for the year ended 31 December 2020 to approximately HK$30.5 million for the Period.

Moreover, Guangzhou Weaving Group also contributed gross profit of approximately HK$23.6 million for the Period, while recorded gross profit of approximately HK$21.0 million for the year ended 31 December 2020.

The Group's overall gross profit margin for the Period was approximately 16.8%, representing an increase of approximately 4.0 percentage points, as compared with gross profit margin of approximately 12.8% for the year ended 31 December 2020. Such increase was primarily due to the increase of gross profit margin of the semiconductor business, which increased from approximately 6.5% for the year ended 31 December 2020 to approximately 13.8% for the Period. This was mainly attributable to the higher efficiency for the absorption of manufacturing overhead costs arising from the increase in revenue and sales volume of semiconductors during the Period, while there was temporary suspension of production of semiconductors for about one month after the Chinese New Year in 2020 due to the public health measures put in place to prevent the spread of the COVID-19 pandemic. Furthermore, there was also reduction in costs incurred for the anti-pandemic measures such as the quarantine, social distancing and other pandemic containment measures during the Period.

The gross profit margin of Guangzhou Weaving Group was recorded at approximately 23.5% and 30.5% respectively for the Period and for the year ended 31 December 2020. The decrease was mainly attributable to more competitive price offered for the broadband infrastructure construction and smart domain solution projects in order to capture the market share.

Selling and Distribution Costs

The Group's selling and distribution costs for the Period was approximately HK$8.4 million, representing an increase of approximately HK$0.7 million or 9.4% from approximately HK$7.7 million for the year ended 31 December 2020. The amount mainly represented the selling and distribution costs of semiconductors business and such increase was in line with the change of revenue of semiconductors during the Period as discussed above.

Administrative Expenses

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

The Group's administrative expenses for the Period was approximately HK$80.8 million, increased by approximately HK$20.2 million or 33.5%, as compared to that of approximately HK$60.6 million for the year ended 31 December 2020.

The increase was primarily attributable to, among others, (i) the increase of staff costs for approximately HK$4.2 million; (ii) the increase of social insurance for approximately HK$2.4 million, resulting from the provisional reduction of employer's contribution of social insurance by the PRC government due to the outbreak of COVID-19 in 2020 while there was no such reduction for the Period; (iii) the write-off of intangible assets of approximately HK$1.1 million; (iv) the loss on disposal of non-current assets classified as held for sale of approximately HK$0.8 million; and (v) the impairment loss on trade receivables, contract assets and amounts due from related companies, totaling approximately HK$9.3 million.

Impairment loss on trade receivables, contract assets and amounts due from related companies for the year ended 31 December 2021

In accordance with the HKFRS 9 requirements, the management performed the impairment assessment and measured the expected credit loss ("ECL") on trade receivables, contract assets and amounts due from related companies based on the simplified approach as at 31 December 2021 and 2020. Consistent with the previous financial year, the loss allowance for ECL on trade receivables, contract assets and amounts due from related companies are estimated by using a provision matrix to measure the ECL and with reference to a valuation on ECL performed by an independent qualified professional valuer, Valtech Valuation Advisory Limited ("Valtech"). Valtech has appropriate qualifications and has recent experience on the assessment on ECL of similar financial instruments.

For more details of the accounting policy and the key assumptions and inputs, please refer to the note 3 and note 4 to the consolidated financial statements of this report respectively.

In assessing the loss allowance for ECL, the management has taken into consideration the period that the amounts were past due, the repayment history, the profile of debtors, the communication with the debtors about their financial conditions, the general economic conditions of the industry in which the debtors operate, as well as the results of any collection efforts.

During the Period, the Group has recorded the impairment loss on trade receivables, contract assets and amounts due from related companies in aggregate of approximately HK$9.3 million, which consisted of impairment loss on trade receivables of approximately HK$6.0 million, impairment loss on contract assets of approximately HK$0.4 million and impairment loss on amounts due from related companies of approximately HK$2.9 million.

The difficulty of debt collection in relation to the impairment loss for the Period is mainly attributable to the adverse effect on the liquidity of some customers of broadband infrastructure and smart domain segment, which are the property developers in the PRC, caused by the more stringent deleveraging policy in real estate industry implemented by the PRC government since the second half of 2021.

For more details of the allowance for impairment, please refer to the note 20, note 21 and note 24 to the consolidated financial statements of this report.

In view of the above, the management has conducted debt collection procedure to minimise the credit risk, which includes (i) closely monitoring the progress of repayment by following up on the overdue debts by way of telephone calls and other electronic means; (ii) staying in touch with the customers on a more frequent basis; (iii) sending collection statement to the customers to remind them of the outstanding balances status; (iv) delegating a team to determine credit limit and credit approval; and (v) discussing with legal advisor about the appropriateness of taking further legal actions.

Based on the above, the Directors are of the view that the amount of the impairment loss was fair and reasonable.

Impairment loss on plant and equipment and right-of-use assets for the years ended 31 December 2021 and 2020

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

As a result of the impairment assessment, provision for impairment loss of approximately HK$15.0 million (2020: HK$34.5 million) and nil (2020: HK$0.4 million) have been made on the plant and equipment and right-of-use assets respectively during the Period. The non-cash provision for impairment loss will reduce the net carrying amount of plant and equipment and right-of-use assets, reducing the depreciation charge over the remaining lease terms.

For more details of the provision for impairment loss, please refer to the note 15 and note 16 to the consolidated financial statements of this report.

Allowance for inventories for the year ended 31 December 2020

During the year ended 31 December 2020, the management reviewed the condition of inventories of the Group and allowance for impairment loss of approximately HK$1.8 million had been made against the aged inventory items including finished goods and raw materials, which were considered obsolete and slow-moving (other than the Specific Types of Semiconductors mentioned in the following section headed "Impairment loss on plant and equipment and inventories for the year ended 31 December 2019"), based on the assessment of the net realisable value. The management estimated the net realisable value, with reference to the ageing analysis and considering the movement and saleability of the inventories.

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

In 2021, the management considered there is no realistic prospect of selling these impaired obsolete inventory. In order to optimize the use of storage space in the warehouse, the Group has fully written off these impaired obsolete inventory during the year ended 31 December 2021. For more details of the inventories, please refer to the note 19 to the consolidated financial statements of this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

In determining the fair value less costs of disposal, the market approach was mainly adopted by Valtech which considers prices recently paid for similar assets in an active market, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative, as well as quotations from second-hand traders. Valtech had assumed that the equipment is capable to be used in its present existing state and in normal working condition and had come to the conclusion that the fair value less costs of disposal of the Specific Machineries was approximately HK$15.3 million. As a result, impairment loss of approximately HK$22.5 million was recorded. For more details of the impairment loss, please refer to the note 15 and note 39 to the consolidated financial statements of the annual report 2020.

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

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

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

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

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

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

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

Update on the Specific Types of Semiconductors

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

Moreover, the management considered that there was no realistic prospect of selling the remaining portion of the impaired Specific Types of Semiconductors. Therefore, the Group has written off substantial part of the remaining impaired Specific Types of Semiconductors in 2020, which amounted to approximately HK$3.0 million, in order to optimise the use of storage space in the warehouse. As at 31 December 2020, the balance of allowance for impairment loss of Specific Types of Semiconductors remained approximately HK$1.4 million.

In 2021, the management considered there is no realistic prospect of selling the remaining impaired Specific Types of Semiconductors. In order to optimize the use of storage space in the warehouse, the Group has fully written off these impaired Specific Types of Semiconductors during the year ended 31 December 2021. For more details of the inventories, please refer to the note 19 to the consolidated financial statements of this report.

Update on the Specific Machineries

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

During the year ended 31 December 2020, the management conducted a review of impairment of the remaining Specific Machineries and engaged Valtech, the independent qualified professional valuer, to evaluate the recoverable amounts of these Specific Machineries, which were based on fair value less costs of disposal.

In determining the fair value less costs of disposal, the market approach was mainly adopted by Valtech and was consistently applied for the years ended 31 December 2020 and 2019, which considered prices recently paid for similar assets in an active market, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative, as well as quotations from second-hand traders. Valtech had assumed that the equipment is capable to be used in its present existing state and in normal working condition and had come to the conclusion that the fair value less costs of disposal of the remaining Specific Machineries was approximately HK$7.3 million. As a result, impairment loss of approximately HK$2.0 million had been made on the remaining Specific Machineries and was recognised in the profit or loss for the year ended 31 December 2020. For more details of the impairment loss, please refer to the note 39 to the consolidated financial statements of the annual report 2020.

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

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

During the year ended 31 December 2021, all remaining Specific Machineries with carrying amount of approximately HK$7.5 million have been sold in different tranches to a number of manufacturers in the second-hand market, which were all third parties independent of and not connected with the Company and its connected persons (as defined in the Listing Rules), on arm's length basis. As a result, net loss on disposals of approximately HK$0.8 million was recorded in profit and loss for the year ended 31 December 2021. The disposal of the Specific Machineries did not constitute any notifiable transaction under Chapter 14 of the Listing Rules. As at 31 December 2021, all non-current assets classified as held for sale were fully disposed of.

Income Tax (Expense) Credit

The Group's income tax expenses for the Period were approximately HK$0.4 million, as compared to income tax credit of approximately HK$8.4 million for the year ended 31 December 2020. Such movement of income tax was primarily attributable to less deferred tax impact recorded during the Period. This is because the deferred tax effect arising from the impairment loss on plant and equipment, trade receivables and amounts due from related companies has offset with the deferred tax effect arising from the disposal of non-current assets classified as held for sale and the written off of impaired inventory.

Loss for the Period

As a result of the foregoing, the Group's net loss for the Period was approximately HK$51.6 million, when compared to the net loss of approximately HK$58.8 million for the year ended 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

The Group's outstanding capital commitments as at 31 December 2021 amounted to approximately HK$8.5 million (2020: HK$11.0 million). Such commitments primarily related to the broadband infrastructure construction and purchase of equipment and machinery to meet the demand of the market and quality control improvements in the production plant. Such outstanding commitments are expected to be funded by the Group's internally generated funds.

As at 31 December 2021, the Group had no outstanding bank borrowings.

Please refer to note 23 to the consolidated financial statements in this report for the ageing analysis in respect of the trade payables of the Group as at 31 December 2021 and 2020.

The Group's gearing ratio as at 31 December 2021 and 2020, which were calculated by dividing its total bank borrowings by its total equity as at those dates, were both nil due to the absence of bank borrowings as at those dates.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised with all bank deposits denominated either in HK$, US$ or RMB. The Group's liquidity and financing requirements are reviewed regularly. The Group will continue to maintain a prudent capital structure when considering financing for new investments.

CHARGES ON GROUP ASSETS

As at 31 December 2021, the Group did not have any asset pledged (2020: Nil).

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

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

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any significant contingent liabilities (2020: Nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group is exposed to foreign currency risks as several of its subsidiaries have foreign currency sales and purchases. For the years ended 31 December 2021 and 2020, approximately 36% and 41%, 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 4% and 6%, respectively, of purchases were not denominated in the relevant group entities' functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2021 and 2020 are as follows:

	Assets		Liabilities	
	As at 31 December		As at 31 December	
	2021	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars	**29,498**	34,395	**2,668**	2,713
Renminbi	**96**	4,818	**–**	–
	29,594	39,213	**2,668**	2,713

The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

HUMAN RESOURCES

As at 31 December 2021, the Group had a workforce of 374 full-time employees (including the Directors but excluding the independent non-executive Directors) of whom approximately 96.3% were employed in the PRC and approximately 3.7% in Hong Kong. The Group's staff costs (including Directors' emoluments) for the years ended 31 December 2021 and 2020 amounted to approximately HK$66.5 million and HK$59.2 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.

ENVIRONMENTAL MATTERS

While the Group is subject to the PRC environmental laws and regulations including the Environment Protection Law of the PRC, which govern a broad range of environmental matters, including air pollution, noise emissions, discharge of waste water and waste residues, the Directors believe that the Group's production process does not generate environmental hazards which would pose a significant adverse effect on the environment and that the environmental protection measures undertaken by the Group are adequate to comply with all applicable current local and national PRC regulations.

During the Period and to the best of the Directors' knowledge, the Group did not receive any complaints from its customers or any other parties in respect of any environmental protection issues, and did not experience any material environmental incidents arising from its manufacturing activities. During the Period, no administrative sanctions or penalties were imposed on the Group for the violation of environmental laws or regulations which had a material adverse impact on its operations.

Please also refer to the Environmental, Social and Governance Report in this report.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the Period (2020: Nil).

BUSINESS PROSPECT

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

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

On the other hand, under China's "14th Five-Year Plan", innovation and technology development have been elevated to core national priorities and strategic supporting pillar to its economic development. It is foreseeable that 5G networks, artificial intelligence, internet of things, cloud computing and big data processing will be benefited continuously from the PRC government's dedicated support in its development. We believe that the wide range of technological innovation will drive the emerging applications in the smart living sector. In view of this, the Group will capitalise on the fast-growing demand of technological application in the smart living sector.

Looking forward, Guangzhou Weaving is dedicated to be a smart domain solution integrator. The Group will keep searching for other acquisition or investment targets, primarily focusing on areas of smart living related technology and electronic parts for artificial intelligence and internet of things, which could have potential business synergy with Guangzhou Weaving and semiconductor business or those being encouraged and supported by the PRC government.

EXECUTIVE DIRECTORS

Mr. Zhang Liang Johnson

Mr. Zhang Liang Johnson ("**Mr. Zhang**"), aged 40, is the Chairman of the Company and has been appointed as an executive Director with effect from 19 May 2018. He is the sole shareholder of Yoho Bravo Limited, the controlling shareholder of the Company. Mr. Zhang has over 16 years of experience in the PRC real estate industry. He is an entrepreneur in various industries, including real estate, energy and entertainment etc. Mr. Zhang is the controlling shareholder and an executive director of Kinetic Development Group Limited (stock code: 1277), the issued shares of which are listed on the Main Board of the Stock Exchange. He is also the controlling shareholder, the chairman and an executive director of Transmit Entertainment Limited (stock code: 1326), the issued shares of which are listed on the Main Board of the Stock Exchange. Mr. Zhang has established Seedland Real Estate Group Co., Ltd. (formerly known as Guangzhou Seedland Real Estate Development Co., Ltd.) in the PRC in January 2006 which, through its subsidiaries, principally engaged in real estate business. Mr. Zhang has also made other financial investments in the technology and finance sectors such as internet financing services, virtual reality applications and artificial intelligence. Mr. Zhang was awarded as one of the most popular investors at the 2018 Global Youth Innovation Conference (2018 GYIC全球青年創新大會) held on 18 October 2018.

Ms. Wan Duo

Ms. Wan Duo ("**Ms. Wan**"), aged 33, has been appointed as an executive Director with effect from 19 May 2018. She holds a master's degree in education from Harvard University and a bachelor's degree in literature from Renmin University of China. She is experienced in corporate finance, mergers and acquisitions, investment management and corporate governance, with a focus on financial and technology investments and management, gained from financial and insurance institutions in Singapore and China. Ms. Wan is currently working in the Seedland group of China and is responsible for its strategic investments.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Liang

Mr. Xu Liang ("**Mr. Xu**"), aged 46, has been appointed as an independent non-executive Director with effect from 9 June 2018. He holds a bachelor's degree in Arts and a bachelor's degree in Economics from Tsinghua University and a master's degree in business administration from Harvard University. He has experience in financial management of listed companies, including China Digital TV Holding Co., Ltd., which was a New York Stock Exchange-listed company (then stock code: NYSE:STV) and Bona Film Group, which was a Nasdaq-listed company (then stock code: Nasdaq: BONA). He is also the chairman of House2Home Culture & Technology (Tianjin) Co., Ltd. (房到家).

Mr. Chen Johnson Xi

Mr. Chen Johnson Xi ("**Mr. Chen**"), aged 39, has been appointed as an independent non-executive Director with effect from 9 June 2018. He is a seasoned investor and entrepreneur having worked on numerous venture capital, private equity, IPOs and M&A transactions globally. He is currently the chief executive officer of an Asian based investment and technology company with businesses in financial services/fintech, telecommunications, media, technology (TMT), biotechnology and high technology. Mr. Chen is the chairman for Australia Biotechnology Corporation and vice chairman for Financial Industry Policy of the South China American Chamber of Commerce Institute for International Economic Strategy. Mr. Chen has held senior leadership roles at PwC Strategy& (Formerly Booz & Company), KPMG M&A Advisory and Accenture. He holds a Bachelor's degree in Information Systems and Post Graduate Certificate of Applied Commerce from The University of Melbourne.

Ms. Zhang Yibo

Ms. Zhang Yibo ("**Ms. Zhang**"), aged 40, has been appointed as an independent non-executive Director with effect from 9 June 2018. She graduated with a bachelor's degree in economics from Nankai University in 2003 and a master's degree in business administration from The Hong Kong University of Science and Technology. She has experience in asset management, management of listed companies and their investment in Hong Kong and China. From October 2012 to February 2013, she was a director of Bingo Group Holdings Limited (stock code: 8220.HK) which is principally engaged in (among other things) movie production, licensing, crossover marketing and provision of interactive contents. Ms. Zhang is currently the chief operation officer and a responsible officer of Alphawise Asset Management Limited and a licensed officer under the SFO, registered to conduct Type 9 (asset management) regulated activity under the SFO.

SENIOR MANAGEMENT

Mr. Li Qiang

Mr. Li Qiang ("**Mr. Li**"), aged 40, is the chief executive officer of Guangzhou Weaving Communications Telecommunications Technology Limited* (廣州織網通訊科技有限公司). Mr. Li joined the Group in February 2022. Mr. Li has over 17 years of experience in relation to product R&D and operation management in telecom software development, fixed/mobile network communication and smart city fields. Mr. Li graduated from Xidian University in July 2004 with a bachelor's degree in computer science and technologies. From 2004 to 2018, he served as (by timeline) telecom software development engineer, telecom software system architect, smart city solution senior architect in Huawei Technologies Co., Ltd., which is the world's leading provider of ICT (Information and Communications Technology) infrastructure and intelligent terminals, and was responsible for R&D, solution planning and sales in telecom software and smart city services. From 2018 to 2021, he served as the vice general manager of the smart city center of Seedland group, which is a leading real estate developer in the PRC, characterized by its leading smart living space strategy and solutions, and was responsible for the planning and realization of Seedland's smart living space strategy, solutions, and products.

Mr. Chan Chun Sing

Mr. Chan Chun Sing ("**Mr. Chan**"), aged 38, joined the Group in October 2019 as our financial controller. Mr. Chan is primarily responsible for the Group's overall financial strategies, and daily management of the Group's financial and accounting function. Mr. Chan has over 16 years of experience in accounting, auditing and financial management. Prior to joining the Group, Mr. Chan worked in an international accounting firm from September 2005 to September 2010. From September 2010 to March 2015, he served as accounting manager of China Lumena New Materials Corp. (stock code: 67). From May 2015 to January 2016, he served as the vice director of finance department of Hong Kong Huafa Investment Holdings Limited, a subsidiary of a state-owned enterprise in Zhuhai. From February 2016 to September 2019, he was the executive director, chief financial officer and company secretary of Grand Brilliance Group Holdings Limited (stock code: 8372), and was responsible for overseeing the group's accounting, financial and company secretarial functions.

Mr. Chan graduated from the University of Hong Kong in 2005 with a bachelor's degree in Business Administration majoring in Accounting and Finance. He is a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

COMPANY SECRETARY

Mr. Kwong Lun Kei Victor

Mr. Kwong Lun Kei Victor ("**Mr. Kwong**"), aged 40, is a practising solicitor and was admitted as a solicitor in Hong Kong in 2010. He obtained his Bachelor of Laws and Bachelor of Commerce from University of New South Wales, Australia in 2007. He has over ten (10) years of experience in corporate finance and primarily advises on listings of companies on the Stock Exchange, mergers and acquisitions, regulatory compliance and other commercial law matters.

The Directors submit their report together with the audited consolidated financial statements for the Period.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in 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).

RESULTS OF THE GROUP

The Group's results for the Period and the state of affairs of the Company and the Group as at 31 December 2021 are set out in the audited consolidated financial statements on pages 84 to 169 of this report.

BUSINESS REVIEW

A business review in respect of the Group's performance during the Period and the material factors underlying its results and financial position, principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" in this report. Please also refer to the section headed "Chairman's Statement" in this report for discussions on the Group's business outlook and the section headed "Environmental, Social and Governance Report" for the Group's environmental policies and performance, compliance with relevant laws and regulations and key relationships with stakeholders during the Period. Such review and discussion form parts of this Directors' Report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five years is set out on page 170 of this report.

SHARE CAPITAL AND ISSUE OF SECURITIES DURING THE PERIOD

Details of movements in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DIVIDENDS AND DIVIDEND POLICY

The Board does not recommend payment of any final dividend for the Period. During the Period, no interim dividend was paid or declared.

The Board has discretion to declare and distribute dividends to Shareholders subject to the provisions of the constitutional documents of the Company, and applicable laws and regulations. In considering whether to recommend or declare dividends, the Board will also take into account a number of factors including but not limited to financial results, cash flow situation, general market conditions, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

RESERVES

As at 31 December 2021, the total reserves available for distribution, taking into account accumulated losses, to Shareholders by the Company amounted to approximately HK$29.8 million (2020: HK$43.2 million). Details of movements in the reserves of the Company during the Period are set out in the Consolidated Statement of Changes in Equity and note 30 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the Period are set out in note 15 to the consolidated financial statements. The Group did not have any investment property as at 31 December 2021.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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.

SHARE OPTION SCHEME *(Continued)*

The total number of Shares available for issue under the Scheme is 80,000,000 Shares, representing 10% of the total number of Shares in issue. The total number of Shares to be issued upon exercise of the share options granted to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the total number of Shares then in issue, unless approved by Shareholders in general meeting pursuant to the requirements under the Listing Rules. The number of Shares to be issued in respect of which options may be granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates (within the meaning of the Listing Rules) representing in aggregate over 0.1% of the total number of the Shares on the date of such grant and with an aggregate value in excess of HK$5,000,000 must be approved by Shareholders in general meeting.

An offer of a grant of share options under the Scheme may be accepted within five business days from the date on which the offer is made with a cash consideration of HK$1.00 payable to the Company. The period for the exercise of a share option is determined by the Board in its sole discretion, but such period shall not be more than 10 years from the date of grant of the option.

Under the Scheme, the subscription price payable upon exercise of any options granted is determined by the Board but in any event it shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a participant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option; and (iii) the nominal value of the Shares.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company as at the date of this report are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

LIST OF DIRECTORS

The Directors during the Period and up to the date of this report are:

Executive Directors

Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo
Mr. Tong Wen-hsin *(resignation with effect from 1 February 2021)*

Independent Non-Executive Directors

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

DIRECTOR'S SERVICE CONTRACTS

There are no service contracts for any of the Directors who are nominated for re-election at the forthcoming annual general meeting of the Company to be held in 2022 which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

INDEMNITY OF DIRECTORS

The Directors are indemnified against actions, costs, charges, losses, damages and expenses incurred in discharge of their duties subject to the provisions of the Articles and other applicable legislation. The Company has taken out Directors' and officers' liabilities insurance for such purposes for the Period.

EMOLUMENTS OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors and the five highest paid individuals in the Group are set out in note 14 to the consolidated financial statements.

The emoluments paid or payable to the senior management of the Group who are not Directors were within the following bands:

	2021 ***No. of employees***	2020 *No. of employees*
HK$1,000,001 to HK$1,500,000	**3**	3
HK$2,000,001 to HK$2,500,000	**1**	–
Above HK$2,500,000	**1**	1
	5	4

EMOLUMENT POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme. However, no option was so granted during the Period.

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

As at 31 December 2021, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the Shares

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

Notes:

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

(2) Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 31 December 2021, through Yoho Bravo Limited which is wholly-owned by him.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2021, the interests and short positions of substantial Shareholders and other persons (other than Directors or chief executives 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 31 December 2021, 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 31 December 2021.

Save as disclosed above, as at 31 December 2021, 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.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

Yoho Bravo Limited, the controlling shareholder of the Company (as defined under the Listing Rules) has charged 599,658,000 Shares, representing approximately 74.96% of the issued share capital of the Company, in favour of China Galaxy International Securities (Hong Kong) Co., Limited as a security of a loan provided by China Galaxy International Securities (Hong Kong) Co., Limited to Yoho Bravo Limited in connection with a general offer made by Yoho Bravo Limited to acquire Shares.

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 interest with the Group during the Period.

MANAGEMENT CONTRACTS

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

TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE TO THE BUSINESS OF THE GROUP

Save as disclosed in the paragraphs headed "Related party transaction" and "Continuing connected transactions" in this Directors' report, (i) no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period; and (ii) no contracts of significance (including those in relation to provision of services) between members of the Group and the controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Period or at any time during the Period.

ARRANGEMENT TO ACQUIRE SHARES AND DEBENTURES

At no time during the Period was the Company, its immediate holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save for the Scheme the particulars of which are disclosed in this report, the Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) during the Period.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

During the Period, the Group was not aware of any incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business and operations.

TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings of the Shares.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality products and services to its customers and enhancing cooperation with its business partners.

The Group strives to provide a safe workplace to its employees. It also provides competitive remuneration and benefits, as well as training programs so that staff can keep abreast with developments in the market. Employees are also provided with clear career path with opportunities for additional responsibilities and promotions based on their merits and performance.

The Group believes that product quality is the key to maintaining a good customer relationship. To achieve this goal, the Group has a set of established quality assurance standards to meet its customers’ requirements, and each shipment of finished products is checked and sub-standard products will be re-worked and retested prior to delivery to customers.

The Group is also dedicated to maintaining good relationship with suppliers as long-term business partners to ensure stability of the Group’s business.

MAJOR CUSTOMERS AND SUPPLIERS

The Group’s five largest customers collectively accounted for approximately 39.9% (2020: 38.2%) of its total revenue for the Period and its largest customer accounted for approximately 11.7% (2020: 10.4%) of its total revenue for the Period.

The Group’s five largest suppliers collectively accounted for approximately 51.7% (2020: 55.6%) of its total purchases for the Period and its largest supplier accounted for approximately 20.3% (2020: 21.2%) of its total purchases for the Period.

None of the Directors and their respective close associates (within the meaning of the Listing Rules) or any holder of Shares who, to the knowledge of the Directors, owns more than 5% of the issued Shares has any interest in any of the five largest customers or five largest suppliers of the Group during the Period.

RELATED PARTY TRANSACTION

Significant related party transactions entered into by the Group during the Period are set out in note 35 to the consolidated financial statements.

Other than provision of broadband infrastructure construction services to Seedland under the Construction Services Framework Agreement (as renewal for a term of three years ended 31 December 2024), which constituted a continuing connected transaction, the Directors consider that these significant related party transactions disclosed in note 35 to the consolidated financial statements did not fall under the definition of “connected transactions” or “continuing connected transactions” (as the case may be) in Chapter 14A of the Listing Rules or are fully exempt from the requirements to comply with any of the reporting, announcement or independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Period, the Group had entered into the following continuing connected transactions:

On 13 June 2019, Guangzhou Weaving entered into the construction services framework agreement (the "**Construction Services Framework Agreement**") with Seedland Real Estate Group Co., Ltd. ("Seedland", formerly known as Guangzhou Seedland Real Estate Development Co., Ltd.) for a term up to 31 December 2021, pursuant to which Guangzhou Weaving provided Seedland with certain communication construction services, including but not limited to broadband infrastructure construction services for residential properties and projects, integrated solutions for smart community projects covering both hardware for security and identification purposes and software for residence management and community services, and Guangzhou Weaving received construction service fees in return.

Mr. Zhang Liang Johnson, the chairman of the Board and an executive Director, is interested in the entire issued share capital of Seedland and Seedland is a connected person of the Company under Chapter 14A of the Listing Rules. Given that Guangzhou Weaving is an indirect wholly-owned subsidiary of the Company, the Construction Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the transactions under the Construction Services Framework Agreement exceed 0.1% but are less than 5%, the Construction Services Framework Agreement is only subject to reporting, annual review and announcement requirements, which have been complied with, but are exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

During the Period, the aggregate construction service fees received by Guangzhou Weaving from Seedland pursuant to the Construction Services Framework Agreement amounted to approximately HK$12.4 million (2020: HK$9.4 million) and is within the annual cap.

The independent non-executive Directors have reviewed the continuing connected transactions as set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) on terms that are fair and reasonable and in the interests of the Shareholders as a whole according to the Construction Services Framework Agreement.

SHINEWING (HK) CPA Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In the opinion of the Directors, sufficient access was given to SHINEWING (HK) CPA Limited to the records of the Group for the purpose of reporting on the continuing connected transactions. SHINEWING (HK) CPA Limited has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

As the forgoing Construction Services Framework Agreement would expire on 31 December 2021, Guangzhou Weaving entered into a renewed framework agreement with Seedland on 6 December 2021 ("**2022 Construction Services Framework Agreement**"), for a term of three years ending 31 December 2024, pursuant to which Guangzhou Weaving Group Companies shall provide Seedland Group Companies with certain communication construction and smart domain solution services, including but not limited to broadband infrastructure construction services for residential properties and projects and integrated solutions for smart community projects (including hardware for security and identification purposes, software for residential management and community services) and Guangzhou Weaving Group Companies shall receive construction service fees in return. The maximum aggregate service fee receivable from Seedland Group Companies under the 2022 Construction Services Framework Agreement for each of the years ending 31 December 2022, 2023 and 2024 are RMB8.0 million (equivalent to approximately HK$9.8 million) throughout the term thereof.

The transactions contemplated under the 2022 Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As all the applicable percentage ratios in respect of the transactions contemplated under the 2022 Construction Services Framework Agreement are less than 25% and the annual cap is less than HK$10 million, the transactions contemplated under the 2022 Construction Services Framework Agreement constitute de minimis transactions under Rule 14A.76 of the Listing Rules, and therefore are subject to reporting, annual review and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the Company's announcement dated 6 December 2021 for details.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received from each independent non-executive Director the annual confirmation of his/her independence, and the Company considers them to be independent in light of the guidelines set out in Rule 3.13 of the Listing Rules.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of not less than 25% of the issued Shares as required under the Listing Rules.

CHARITABLE DONATIONS

The Group made charitable donations of HK$30,000 (2020: HK$58,000) in total during the Period.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period and up to the date of this report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2021 have been audited by SHINEWING (HK) CPA Limited and have been reviewed by the audit committee of the Company.

A resolution for the re-appointment of SHINEWING (HK) CPA Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of
Brainhole Technology Limited

Zhang Liang Johnson
Chairman

Hong Kong, 31 March 2022

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 then effective CG Code, except for A.1.1 and E.1.2, during the Period.

Pursuant to A.1.1 of the CG Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. Although only 2 regular Board meetings were held during the year ended 31 December 2021, the Board considered that sufficient meetings had been held as business operations were under the management and the supervision of the executive Directors. In addition, senior management of the Group provided to the Directors the information in respect of the Group's business development and activities from time to time and the significant matters had been either duly reported, discussed and resolved at the 2 Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes.

E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. However, due to other business engagements, Mr. Zhang Liang Johnson, the chairman of the Board, was unable to attend the annual general meeting held on 11 June 2021. Ms. Wan Duo, an executive Director, was invited to take the chair and answer questions from Shareholders at the annual general meeting.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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.

BOARD OF DIRECTORS

Board Composition and Responsibilities

The Board composition of the Company during the Period are set out as follows:–

Executive Directors

Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo
Mr. Tong Wen-hsin *(resignation with effect from 1 February 2021)*

Independent Non-Executive Directors

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

Details of background and qualifications of all existing Directors as at the date of this report are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

BOARD OF DIRECTORS *(Continued)*

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors and senior management of the Group.

Mr. Zhang Liang Johnson was designated as the chairman of the Board with effect from 11 January 2019. He was responsible for leading the Board in establishing and monitoring implementation of business strategies.

Significant matters of the Group are required to be approved by the Board, including:

(i) formulating corporate development planning;

(ii) formulating the Company's operational and management strategies;

(iii) approving financial statements;

(iv) approving notifiable transactions and connected transactions undertaken by any member of the Group as may be required under the Listing Rules;

(v) approving the risk management and internal control systems of the Group; and

(vi) distribution of any dividend.

Appointment and Re-election of Directors

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year. Each appointment is renewable automatically for successive term of one year each commencing after the expiry of the then current term and is terminable by either party by three months' prior notice. Each of the executive Directors entered into a service contract with the Company for a specific term which is terminable by either party by three months prior notice. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract/letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. We have also taken out Directors' and officers' liabilities insurance for such purposes for the Period.

The Articles have specified that any Director appointed during the year to fill a casual vacancy are subject to re-election by Shareholders at the first general meeting after appointments and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Each Director shall be subject to retirement by rotation at least once every three years pursuant to the Articles.

BOARD OF DIRECTORS *(Continued)*

Directors' Training

During the Period, the Directors received from the Company from time to time the updates on laws, rules and regulations which may be relevant to their roles, duties and functions as directors of a listed company. All Directors have been updated with the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefings and professional development to the Directors will be arranged whenever necessary. Particulars of participation by the Directors are set out as follows:

	Attending training course(s)/reading materials
Executive Directors	
Mr. Zhang Liang Johnson	✓
Ms. Wan Duo	✓
Mr. Tong Wen-hsin *(resignation with effect from 1 February 2021)*	–
Independent Non-executive Directors	
Mr. Xu Liang	✓
Mr. Chen Johnson Xi	✓
Ms. Zhang Yibo	✓

BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established, with written terms of reference, three Board committees, namely audit committee, nomination committee and remuneration committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in compliance with the Listing Rules and they are posted on the websites of the Stock Exchange and the Company.

Audit Committee

The Company established an audit committee on 23 September 2015 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with Rule 3.22 of the Listing Rules and code provision C.3.3 of the CG Code have been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, monitor the integrity of the financial statements, annual reports and interim reports, review significant financial reporting judgements contained in them, and oversee financial reporting system, risk management and internal control systems of the Group. As of 31 December 2021, 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.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The audit committee held 2 meetings during the Period. The key work done by the committee during the Period included:–

- reviewing the annual and interim results of the Group and recommending the same to the Board for approval; and

- reviewing and assessing the adequacy and effectiveness of the risk management and internal control systems of the Group.

There was no disagreement between the Board and the audit committee regarding the appointment of external auditor.

Nomination Committee

The Company established a nomination committee on 23 September 2015. Written terms of reference in compliance with code provision A.5.2 of the CG Code have been adopted. The primary duties of the nomination committee are to review the structure, size, composition and diversity of the Board and make recommendations to the Board on the selection of individuals nominated for directorships, appointment or re-appointment of Directors and succession planning for Directors. As of 31 December 2021, the nomination committee of the Company consists of four members, namely Ms. Zhang Yibo, Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Wan Duo, being three independent non-executive Directors and an executive Director. Ms. Zhang Yibo is the chairperson of the nomination committee.

During the Period, the nomination committee held 1 meeting. The key work done by the committee during the Period included:

- reviewing and confirming the independence of the Company's independent non-executive Directors; and

- reviewing the structure and composition of the Board, as well as policy of nomination of Directors in light of, among other things, the diversity criteria set out in the Company's Board diversity policy.

Remuneration Committee

The Company established a remuneration committee on 23 September 2015 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with Rule 3.26 of the Listing Rules and code provision B.1.2 of the CG Code have been adopted. The primary duties of the remuneration committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review remuneration proposals of the management with reference to the Board's corporate goals and objectives, assess the performance of executive Directors, and ensure that none of the Directors or any of his/her associates is involved in deciding his/her own remuneration. As of 31 December 2021, the remuneration committee of the Company consists of four members, namely Mr. Chen Johnson Xi, Mr. Xu Liang, Ms. Zhang Yibo and Ms. Wan Duo, being three independent non-executive Directors and an executive Director. Mr. Chen Johnson Xi is the chairperson of the remuneration committee.

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The remuneration committee is authorised by the Board to determine, subject to approval by the Board, the remuneration payable to executive Directors and members of senior management, the emolument policies and the basis for determining such emoluments. No Director or any of his/her associates was involved in deciding his/her own remuneration.

During the Period, the remuneration committee held 2 meetings. The key work done by the committee during the Period included:

- reviewing the policy for the remuneration and assessing performance of executive Directors; and

- reviewing the remuneration payable to executive Directors.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code, namely:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

The Board held 2 meetings during the Period, at which the Board reviewed the Company's policies and practice on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code.

BOARD MEETINGS AND ATTENDANCE RECORD OF DIRECTORS

Code provision A.1.1 of the CG Code states that at least four regular board meetings should be held each year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

During the Period, the Board held 2 meetings, and 1 Shareholders' meeting were held (being the annual general meeting of the Company held on 11 June 2021). The Directors' attendance records in respect of meetings held during the Period are shown as follows:

	Attendance Record of Meetings held during the Period *(Note)*				
Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Number of total meetings	**2**	**2**	**1**	**2**	**1**
Mr. Zhang Liang Johnson	0/2	N/A	N/A	N/A	0/1
Ms. Wan Duo	2/2	N/A	1/1	2/2	1/1
Mr. Tong Wen-hsin *(resignation with effect from 1 February 2021)*	N/A	N/A	N/A	N/A	N/A
Mr. Xu Liang	2/2	2/2	1/1	2/2	1/1
Mr. Chen Johnson Xi	2/2	2/2	1/1	2/2	1/1
Ms. Zhang Yibo	2/2	2/2	1/1	2/2	1/1

Note: The attendance record shown above related to those meetings of the Board/committee held during the Directors' respective tenure during the Period.

AUDITOR'S REMUNERATION

The fees in respect of audit and non-audit services provided by the external services providers, SHINEWING (HK) CPA Limited (for audit services) and SHINEWING (HK) CPA Limited and its affiliated companies (for non-audit services) to the Group for the year ended 31 December 2021 amounted to approximately HK$778,000 and HK$263,000 respectively. The non-audit services included primarily services in connection with reporting of continuing connected transactions, taxation and environment, social and governance consultancy.

COMPANY SECRETARY

During the Period, Mr. Kwong Lun Kei Victor of Michael Li & Co., an external service provider, was appointed as the company secretary of the Company. His primary contact person at the Company is Mr. Chan Chun Sing, Financial Controller. The biographical details of Mr. Kwong are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR ACCOUNTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the Period, which give a true and fair view of the financial position and performance of the Group on a going concern basis.

Statements of Directors' responsibilities, for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditor's Report in this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility to review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls, to ensure that the systems in place are adequate and effective. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") 2013 framework. The COSO framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The five key components of the COSO framework are shown as follows:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning.

The Group's risk management and internal control systems are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has conducted an annual review on whether there is a need for an internal audit department. Given the Group's relatively simple corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the audit committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness.

During the Period, the Company engaged an external independent consultant with professional staff in possession of relevant expertise to conduct an independent review of the risk management and internal control systems of the Group semi-annually in order to maintain high standards of corporate governance. The review plan has been approved by the Board and its audit committee. The Board and its audit committee had also reviewed the resources, staff qualifications and experience and training programs of the external independent consultant and considered they are adequate and sufficient.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality covenants will be in place when the Group enters into significant negotiations.

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, are likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Board and its audit committee had reviewed the adequacy and effectiveness of the Group's risk management and internal control systems semi-annually. Several areas have been considered during such reviews, which include but are not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. The Board and its audit committee were not aware of any material internal control defects, and considered such systems effective and adequate throughout the Period.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide a forum for the Shareholders to exchange views directly with the Board. Subject to provisions of the applicable laws in the Cayman Islands and rules and regulations of the Stock Exchange, the Articles require that an annual general meeting of the Company is held each year and at the venue as determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting.

According to the Articles, any one or more holders of Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The notice of requisition must be deposited at the registered office of the Company.

SHAREHOLDERS' RIGHTS *(Continued)*

Subject to the provisions of the Articles, eligible Shareholders who wish to move a resolution at any extraordinary general meeting of the Company may, by means of requisition, convene an extraordinary general meeting following the procedures set out above.

Shareholders may direct enquiries about their shareholdings to the Company's share registrars. To the extent the requisite information of the Company is publicly available, Shareholders and the investing community may at any time make enquiry in respect of the Company in writing at the Company's office in Hong Kong by post, facsimile or email via the numbers and email addresses available on the Company's website at www.brainholetechnology.com.

NOMINATION POLICY

The Board has approved and adopted the nomination policy which sets out the principles guiding the nomination committee to identify and evaluate a candidate for nomination to the Board for appointment or to the Shareholders of the Company for election as a Director of the Company. The policy contains a number of factors to which the nomination committee has to adhere when considering nominations. These factors include the candidate's skills and experience, diversity perspectives set out in the Board diversity policy, the candidate's time commitment and integrity, and the independence criteria under Rule 3.13 of the Listing Rules if the candidate is proposed to be appointed as an independent non-executive Director. The policy also lays down the following nomination procedures: the nomination committee (a) will take appropriate measures to identify and evaluate a candidate; (b) may consider a candidate recommended or offered for nomination by a Shareholder of the Company; and (c) will, on making the recommendation, submit the candidate's personal profile to the Board for consideration.

BOARD DIVERSITY POLICY

The Board has approved and adopted the Board diversity policy which sets out the approach to achieve diversity in the Company's Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates may bring to the Board.

DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the "**Dividend Policy**") in compliance with code provision E.1.5 of the CG Code. It is the policy of the Board that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its Shareholders value.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- the actual and expected financial performance of the Company and each of the members of the Group;
- the capital and debt level of the Group;
- the general market conditions;
- the business conditions and strategies of the Group;
- the expected working capital requirements, capital expenditure requirements and future development plans of the Group;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the liquidity position of the Group;
- any restrictions on dividend payouts imposed by any of the Group's lenders;
- the statutory and regulatory restrictions which the Group is subject to from time to time;
- interests of Shareholders; and
- any other relevant factors that the Board may deem appropriate.

The payment of dividend by the Company is also subject to any restrictions under the applicable laws, rule and regulations and the Articles. The Board will from time to time review the Dividend Policy and may exercise at its absolute and sole discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any specific reporting period.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update them with the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the websites of the Stock Exchange and the Company in order to maintain a high level of transparency.

CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 13.90 of the Listing Rules, the Company has published its memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company. No amendments were made to the constitutional documents of the Company during the Period.

ABOUT THIS REPORT

Introduction

This Environmental, Social and Governance ("ESG") Report summarizes and reports on the sustainable development practice carried out by Brainhole Technology Limited (the "Company") and its subsidiaries (collectively known as the "Group" or "We") covering the period from 1 January 2021 to 31 December 2021 (the "Year"). The ESG Report covers various works on sustainable development and the ESG performance of the Group.

Reporting Scope

The Group is principally engaged in 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). The ESG Report sets out the overall environmental and social policies of the Group when conducting business in the People's Republic of China (the "PRC" or "China"). During the Year, the reporting scope of the Group was carefully determined based on the location of the Group's principal activities and the entities with significant environmental impact, thus mainly are the disclosure of the performance of (i) the plants, offices and dormitories of Dongguan Jia Jun Electronic Technology Company Limited ("Dongguan Jia Jun"), (ii) Guangzhou Weaving Communications Telecommunications Technology Limited* (廣州織網通訊科技有限公司) ("Guangzhou Weaving"), and (iii) the office of Top Dynamic Enterprises Limited ("TD Enterprises") located in Cheung Sha Wan, Hong Kong ("Cheung Sha Wan Office").

Details about the corporate governance, please refer to the Corporate Governance Report on page 34 to 44.

Reporting Framework

This ESG Report is prepared and disclosed by the Group in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and in compliance with the "comply or explain" provisions thereof.

Reporting Principles

The content of the ESG Report is determined through stakeholder engagement and materiality assessment process, which includes identifying ESG-related issues, collecting and reviewing the management and stakeholders' opinions, assessing the relevance and materiality of the issues and preparing and validating the information reported. The ESG Report covers all key issues that are concerned by different stakeholders.

Quantitative environmental and social KPIs are disclosed in the ESG Report so that stakeholders are able to have a comprehensive understanding of the Group's ESG performance. Information of the standards, methodologies, references and source of key emission and conversion factors used on these KPIs are stated wherever appropriate. The Group had adopted consistent methodologies as far as reasonably practicable for convenient comparison with ESG performance in different years. The Group had presented and elaborated any changes in methodologies (if any) in corresponding section.

Comments and Feedback

Details about the ESG performance of the Group, please visit our official website (www.brainholetechnology.com) and annual reports. We value your opinions on this Report. Please feel free to email us at info@brainholetechnology.com if you have any advice or suggestion.

SUSTAINABLE DEVELOPMENT OVERVIEW AND MANAGEMENT OBJECTIVES OF THE GROUP

We believe our success is founded upon the principles and concepts of sustainability. Therefore, we are committed to providing high-quality products, value-added solution kits services and engineering solutions services for customers, whilst at the same time striving to preserve the environment and support the communities through its social responsibility practices. The Group aims to develop the world-leading scientific and technological research achievements as a supplier of world-leading high-tech products and smart solutions. While serving the people and enhancing the living standard of the people and community, we are also committed to improving and enhancing the sustainable development of the environment and society. To this end, the Group has established several management systems in response to different business operation demands to guarantee that all the operation stations can meet the relevant local and international standards. We actively manage business in an environmentally and socially responsible manner and continue to develop and provide high-quality products and services in line with national policies on green and sustainable development, in order to make contributions to the environmental protection.

Board Governance Statement

The Group is committed to the implementation of corporate goals and visions as well as the active fulfillment of social responsibilities to benefit all stakeholders. To ensure an appropriate and effective ESG management approach is developed, the Board has stipulated clear duties and responsibilities to directly manage and supervise the implementation of the ESG-related issues by the Group. The Group is determined to contribute to society and protect the environment under the principle of sustainable development. For the sake of effective implementation of sustainable development strategy, the Board took the responsibility of facilitating and supervising the establishment of communication channels among departments for convenient communication on ESG matters. Furthermore, the Board is also responsible for monitoring the formulation and reporting of the ESG strategies of the Group as well as assessing and identifying the ESG risks of the Group timely to ensure the effectiveness of the ESG risk management and internal control system so as to enhance the ESG performance of the Group.

In addition, the Board engaged an independent consultancy to assist the Group in the management of ESG affairs during the Year, including conducting data and information collection and analysis, and making recommendations to improve ESG performance. The consultancy also assisted the Board to collect and analyze stakeholders' opinion on ESG matters and conducted materiality assessment. The stakeholders were asked to score and rank ESG issues as they concerned so as to identify the Group's material ESG issues. The Board will also review the content and quality of the annual ESG report to ensure that it meets the requirements of the Board. The Board will also monitor developments in the market and regulatory authorities, and make adjustments to the ESG management approach as appropriate in order to effectively lead the ESG process of the Group.

Stakeholders Communication

The Group believes that the stakeholders' engagement and their continuous support are important for the long-term development of the Group. The Group communicated with the stakeholders under the expectation of improving the Group's sustainable development strategy and implementing its sustainable development goals. Therefore, we adopted a variety of communication methods to allow stakeholders from different areas and levels to express their opinions and suggestions, and we also responded to stakeholders' expectations and concerns in different channels to improve our ESG performance and the future development strategies.

The Group engaged an independent third party consultant for the preparation of the ESG Report for the Year to assist in the collecting of the opinions of the internal stakeholders regarding to ESG issues. This will help the Group to conduct the materiality assessment effectively and comprehensively in the future, and the results will be taken as reference for the purpose of enhancing the internal management of the Group. The Group will increase the engagement of different stakeholders to collect their valuable and constructive opinions and suggestions on the development of the Group in the future.

SUSTAINABLE DEVELOPMENT OVERVIEW AND MANAGEMENT OBJECTIVES OF THE GROUP *(Continued)*

Stakeholders Communication *(Continued)*

Stakeholder	Requirement and Expectation	Communication and Response
Governments and regulatory bodies	• Compliance with national laws and regulations • Tax payment in full and on time • Safety production	• Regular reporting of information • Examination and inspection
Shareholders	• Operating in accordance with laws • Enhance company value • Transparent information and efficient communication	• General meeting • Company announcement • E-mail, telephone and company website
Partners	• Operation with integrity • Equal rivalry • Performance of contracts • Maintain stable and sound relationship	• Review and evaluation meeting • Business communication • Negotiation and cooperation
Customers	• High-quality products and services • Performance of contracts • Operation with integrity	• Customer opinion investigation • Customer communication meetings
Environment	• Emission compliance • Energy saving and emission reduction • Conservation of ecosystem	• Communication with local environmental department • Investigation and examination
Employees	• Protection of rights • Occupational health and safety • Remunerations and benefits • Career development	• Employee meetings • Employee mailbox • Training and workshop • Employee activities
Society and the public	• Transparent and available information	• Company website • Company announcement

MATERIALITY ASSESSMENT

In order to develop ESG management approach in a clear and effective manner, the Group conducted an materiality assessment during the Year to identify ESG issues critical to its business and stakeholders. This materiality assessment is based on stakeholder questionnaires, opinion analysis by professional third party ESG consultants and the materiality maps[1] provided by reputable external institutions. During the Year, the Group identified the following 8 material ESG-related issues, which are also the focus of discussion in this report.

Topics	Material issues	Relevant sections
Environment	**Greenhouse gas and energy management**	∆ Environmental Protection • Greenhouse Gas and Energy Management
	Water and wastewater management	∆ Environmental Protection • Water Resources and Wastewater Management
	Hazardous waste and environmental incidents	∆ Environmental Protection • Waste Management • Pollution Management
Society	**Occupational health and safety**	∆ Employment and Labour Practices • Occupational Health and Safety
	Employee benefits	∆ Employment and Labour Practices • Working Conditions and Welfare
Business operations and ethics	**Supply chain management**	∆ Responsible Operating Practices • Responsible Procurement
	Quality control	∆ Responsible Operating Practices • Superior Quality
	Information security and privacy	∆ Responsible Operating Practices • Intellectual Property Rights and Privacy Protection

1 The importance assessment referred to the ESG Materiality Map provided by Morgan Stanley Capital International (MSCI) and the Materiality Map provided by Sustainability Accounting Standards Board (SASB) respectively.

ENVIRONMENTAL PROTECTION

Green Operations

As the Group's manufacturing and operating facilities are mainly based in the PRC, the Group strictly complies with local relevant environmental laws and regulations including but not limited to Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法) and Law of the People's Republic of China on Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法). At the same time, the Group is committed to identifying and controlling the potential risks which have significant impact on the environment during the process of operation, so as to minimise the impact on the environment arising from the Group's business operations. We have adopted different measures to integrate environmental protection concepts into daily operations and build a comprehensive enterprise that takes economic, environmental and social aspects into account. For example, Dongguan Jia Jun developed environmental management programs, regularly reviewed the key operation processes of each department and identified the environmental risks possibly involved in the operation, implemented control measures on any identified significant risks, as well as provided suitable training to staff when and as appropriate, in order to effectively implement measures to reduce impact of the environmental risks. Dongguan Jia Jun and TD Enterprises have also obtained ISO14001:2015 environment management system certification.

The Group recognizes the importance of effective use of resources and has been committed to streamlining operations with a view to advocate and pursuing environmental protection policies to optimize resource use, save energy and reduce consumption. Through formulating, implementing and improving policies and procedures related to resource and energy management, the Group regulates and makes good use of resources in the production process, thereby avoiding waste of resources, reducing environmental pollution and improving production efficiency. We have actively promoted the importance of environmental protection to employees through training, so as to raise their awareness of environmental protection and practise the concepts of energy conservation, consumption reduction, waste reduction at source, effective use of resources and green office. We also monitor the use of resources such as the consumption of electricity, water, paper and packaging materials.

During the Year, the Group had not received any complaints from its customers or any other parties in respect of any environmental protection issues, and had not experienced any material environmental incidents arising from its manufacturing activities. At the same time, no material administrative sanctions or penalties were imposed upon the Group for the violation of environment-related laws and regulations which had an adverse impact on its operations.

ENVIRONMENTAL PROTECTION *(Continued)*

Greenhouse Gas and Energy Management

Climate Change and Greenhouse Gas Emissions

In recent years, issues such as climate change and greenhouse gas emissions have gained international attention. As an eco-friendly enterprise, the Group has also strengthened the management of climate-related risks to prepare for the possible impacts of climate change on business operations. At present, the Group has adopted a series of feasible measures to gradually reduce greenhouse gas emissions in the production process as a short-term goal, and is committed to exploring plans to achieve carbon neutrality in the long run.

The Group's direct greenhouse gas emissions and energy indirect greenhouse gas emissions are produced from the consumption of vehicle fuels and purchased electricity, respectively, while other indirect greenhouse gas emissions come from methane generated by delivering waste paper to landfills, electricity consumed in government water supply and wastewater treatment and employees' business travel. Among the above activities, the Group's greenhouse gas emissions mainly come from purchased electricity. In order to reduce the carbon footprints in the Group's operations, the Group has adopted a series of greenhouse gas emissions reduction measures. In terms of production, in order to achieve the goal of saving electricity and reducing emissions, we eliminate obsolete instruments and use high-energy-saving electronic instruments and machines instead, and suspend the machines when not in use to reduce machine idling and improve production efficiency. During the Year, due to the outbreak of the Covid-19, the Group continued to cut the number of business trips and reduced corresponding greenhouse gas emissions by 35%. In addition to choosing online meetings over business trips whenever possible, we will also prioritize direct flights for inevitable business trips to reduce greenhouse gas emissions.

The Group's greenhouse gas emissions are as follows:

Greenhouse Gas Emissions	Unit	2021	2020
Total greenhouse gas emissions	tCO_2e	**4,038**	4,007
Scope 1—direct greenhouse gas emissions *(Note (1))*	tCO_2e	**27**	27
Scope 2—energy indirect greenhouse gas emissions *(Note (2))*	tCO_2e	**3,975**	3,939
Scope 3—other indirect greenhouse gas emissions *(Note (3))*	tCO_2e	**36**	41
Intensity of greenhouse gas emissions	tCO_2e/employee	**11.12**	9.45

ENVIRONMENTAL PROTECTION *(Continued)*

Greenhouse Gas and Energy Management *(Continued)*

Climate Change and Greenhouse Gas Emissions *(Continued)*

Notes:

(1) Calculated based on the "Land Transport Enterprises – Guidelines on Greenhouse Gas Emission Accounting and Reporting (Trial)" issued by the National Development and Reform Commission of the PRC and "Appendix 2: Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.

(2) Calculated based on the "2011 and 2012 Average Carbon Dioxide Emission Factors for Regional Power Grids in China" issued by the National Development and Reform Commission of the PRC and the emission factors provided by the CLP Power Hong Kong Limited.

(3) Calculated based on the Carbon Emissions Calculator of the International Civil Aviation Organization (ICAO), data provided by Shenzhen Water (Group) Co., Ltd. and the "Appendix 2: Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.

In response to extreme weather caused by climate change, Guangzhou Weaving has formulated a set of emergency plans. In the case of special weather, it will communicate with employees in advance and adopt special work arrangements, such as stopping outdoor work to protect employees' health and safety. Dongguan Jia Jun has also established the "Emergency Response Measures" and set up an emergency group to establish preventive measures for possible natural disasters such as earthquakes and strong typhoons, and provide relevant emergency guidelines for employees, as well as stop work when necessary, and arrange employees to leave safely. The plan has also set out various daily wind and rainstorm preventive measures to reduce the possibility of casualties caused by extreme weather.

As many governments and international organizations are gradually tightening reporting requirements for greenhouse gas emissions or raising the corporate emission disclosure standards, the Group has shouldered more responsibilities on emissions reporting. Therefore, the Group may face higher operating costs in the future to cope with the increased compliance costs and implementation of new practices. In order to respond to the risks associated with climate change in a more effective manner, the Group not only reviews the relevant policies and regulatory updates to identify climate-related risks and opportunities that may have a financial impact on the Group's business, but also consults professional advisors on compliance responsibilities for reporting greenhouse gas emissions and suggestions for improvement.

ENVIRONMENTAL PROTECTION *(Continued)*

Greenhouse Gas and Energy Management *(Continued)*

Use of Energy

The Group is committed to continually optimizing its operating processes to save energy, and therefore implements power saving measures in its offices. The Group regularly inspects and maintains power supply facilities, works out statistic on the monthly power consumption of each work area, and implements energy-saving measures to effectively control electricity consumption. For example, we give priority to LED lamps and light bulbs when selecting light tubes to improve energy efficiency; we divide different areas in the plant and office, and turn off air-conditioning, lighting and fans in some areas when no one is using them. We also clean the lighting equipment, fan blades and air conditioners on a regular basis to improve their operating efficiency and reduce waste of electricity. When using air conditioners, we maintain the indoor temperature at 24 to 25 degrees and ensure that the windows are closed to reduce waste of air conditioning. Fans are installed to increase indoor air ventilation to reduce power consumption. Guangzhou Weaving also allows employees to put on casual wear to work in hot weather if there is no meeting with clients to reduce the use of air-conditioning. We encourage employees to save energy, avoid excessive use of lighting and air-conditioning, and turn off lighting in corridors, staircases, meeting rooms and reception areas when there is sufficient illumination. In addition, we put energy-saving slogans next to the switches to remind them to save electricity. Currently, the Group aims to reduce unnecessary energy consumption and improve energy efficiency, and will continue to gradually reduce the intensity of energy consumption by adopting various measures, such as the use of energy-saving equipment and employee education.

The energy consumption of the Group is as follows:

Energy Consumption	Unit	2021	2020
Total energy consumption	MWh	**7,651**	7,580
Vehicle gasoline consumption *(Note (1))*	MWh	**103**	106
Purchased electricity consumption *(Note (2))*	MWh	**7,547**	7,474
Intensity of energy consumption	MWh/employee	**21.08**	17.88

Notes:

(1) Calculated based on the “Appendix 2: Reporting Guidance on Environmental KPIs” published by the Hong Kong Stock Exchange.

(2) Based on the actual purchased electricity consumption of the Group.

ENVIRONMENTAL PROTECTION *(Continued)*

Water Resources and Wastewater Management

The Group recognises the importance of water resources, and is dedicated to reducing water consumption and the impact of sewage on the environment. The water resources consumed by the Group include the water employed in cooling processes of Dongguan Jia Jun, which can be reused in the production process and therefore there is no wastewater discharge and no large amount of water consumption involved. In order to achieve water resource conservation and reduce domestic sewage discharge, the Group clearly introduces water conservation methods to its employees, including the development of clear guidelines and regulations on water facilities, domestic water and water for production in the Group. We regularly check water facilities to avoid wasting water resources due to the damage of water facilities; employees are required to "only turn on the water facilities for use and turn off when not in use" in daily water use to avoid long flows of drinking water. In addition to the above measures, the Group also promotes water conservation among employees through posters, promotional cards and training to raise employees' awareness of water conservation and develop the habit of consciously turning off water when not using it. Currently, the Group aims to avoid unnecessary water use and improve water efficiency, and is committed to finding ways to reduce water intensity.

During the Year, the Group did not have any problems related to sourcing suitable water.

The total water consumption of the Group is as follows:

Water Consumption	Unit	2021	2020
Total water consumption *(Note (1))*	m^3	**23,670** ***(Note (2))***	16,353
Water consumption intensity	m^3/employee	**65.21**	38.57

Notes:

(1) As the water consumption and drainage of the Cheung Sha Wan Office and Guangzhou Weaving are under the full control of the building management company, water-related data cannot be collected.

(2) During the Year, water consumption increased compared to previous years due to the increase in production of Dongguan Jia Jun.

The Group's wastewater is mainly domestic sewage from the factory and dormitories of Dongguan Jia Jun and the office in Cheung Sha Wan. The Group understands that wastewater emissions have an impact on the ecological environment, and thus strictly prohibit direct discharge of wastewater in the production into domestic sewage pipelines. The domestic sewage of the Group shall only be discharged to the municipal wastewater pipeline after being treated by septic tanks and meeting the standards to ensure no negative impact of the Group's operations on the environment. In addition, Dongguan Jia Jun regularly arranges third-party testing agencies to test wastewater and domestic sewage to ensure compliance with local relevant water pollutant emission standards. During the Year, the Group did not receive any notice with respect to illegal discharge of sewage.

ENVIRONMENTAL PROTECTION *(Continued)*

Waste Management

The Group promotes "3R" programs in its factories and offices, which means waste reduction at source, reuse and recycling, and is committed to reducing waste generation. We also encourage the use of environmentally-friendly alternative materials in the production process, optimisation of production processes and implementation of inventory control and management to reduce waste. The Group will recycle reusable materials as much as possible, and turn waste into useful materials. Currently, the Group aims to promote and implement the concept of circular economy and strives to reduce waste generation through employee education and recycling measures.

In order to reduce the impact of solid waste on the environment, the Group has developed clear guidelines for employees to identify, collect, store and dispose of solid waste, and provided employees with knowledge training on waste classification to allow employees to correctly place waste in the appropriate collection container by category. When disposing of non-hazardous waste, employees will also properly classify recyclable waste, such as metal frames, paper and plastic waste generated during production and operation, and deliver such waste to a qualified waste contractor for processing. For unrecyclable non-hazardous waste which comprised of general garbage in dormitories and offices, it is cleaned daily by external cleaning staff. Through effective management and treatment of waste, the recovery rate of the Group's non-hazardous waste reached 56% (2020: 57%), which greatly reduced the impact of non-hazardous waste on environment.

The Group has strongly advocates the concepts of reducing paper consumption, reducing waste at source, and conducting publicity and training. The Group attaches great importance to paper saving and waste reduction. By encouraging the use of email systems to distribute information internally as much as possible, the Group reduces the use of fax and photocopying documents. To increase paper utilisation, we encourage double-sided copying and printing, and use recycled paper to print informal documents. Each department must apply for the amount of paper according to the monthly office requirements so that we can monitor the paper consumption and avoid excessive use. In addition, head of each department will supervise and evaluate the use of paper in the office, and set goals for and measures to reduce paper consumption. During the Year, a total of 2.8 tonnes (2020: 2.9 tonnes) of paper was used by the Group.

In addition, the hazardous waste generated by the Group includes the waste organic solvents produced in the ultrasonic cleaning of packaging products and the cleaning of delicate parts in taping and bonding machines by Dongguan Jia Jun, waste mineral oil generated during machine maintenance, and waste batteries and ink cartridges generated in the operation of each office. In order to properly handle hazardous waste and avoid potential environmental problems caused by improper handling of hazardous waste, after collecting hazardous waste, employees should clearly label the details of such hazardous waste, including its name, quantity and production location and store it in a properly defined space. Employees are also required to wear protective equipment when handling and processing hazardous waste to protect their safety. Dongguan Jia Jun has engaged a licensed hazardous waste treatment service provider to properly handle hazardous waste in accordance with the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, so as to avoid second environmental pollution. During the Year, the total hazardous waste of Dongguan Jia Jun processed by a licensed service provider amounting to 3,640 kg (2020: 1,160 kg).

ENVIRONMENTAL PROTECTION *(Continued)*

Waste Management *(Continued)*

The non-hazardous waste and hazardous waste generated by the Group's business operations were as follows:

Waste	Unit	2021	2020
Total non-hazardous waste generated *(Note (1))*	tonnes	**57**	58
Intensity of non-hazardous waste	tonnes/employee	**0.16**	0.14
Total hazardous waste generated *(Note (2))*	kg	**4,408**	1,941
Intensity of hazardous waste	kg/employee	**12.14**	4.58

Notes:

(1) Calculated based on the actual weight of the non-hazardous waste generated, namely metallic frames, paper and plastic waste generated by the Group. The general office waste was calculated based on the "Research on Solutions to Domestic Solid Waste in Cities of China" issued by the Beijing Environmental Sanitation Administration and the estimated daily amount of general waste and the volume-to-weight conversion coefficient provided by the US Environmental Protection Agency.

(2) Calculated based on the actual weight of hazardous waste generated.

Pollution Management

The Group's exhaust gas from production is mainly derived from the production of semiconductor products by Dongguan Jia Jun, while Guangzhou Weaving primarily operates in its office, thus no material exhaust gas is generated. The production flue gas generated by Dongguan Jia Jun included those from the process of sintering, injection molding and sonicleaning as well as shape cutting and lettering. Dongguan Jia Jun emitted its exhaust gas from the process of sintering, injection molding and sonicleaning after treatment, through exhaust funnel at high altitude, in compliance with the Emission Standard of Volatile Organic Compounds for Shoe-making Industry (DB44/817-2010) (《製鞋行業揮發性有機化合物排放標準》(DB44/817–2010)) and Emission Limits of Air Pollutants (DB44/27-2001) (《大氣污染物排放限值》(DB44/27-2001)). As for the process of shape cutting and lettering, Dongguan Jia Jun strengthened the ventilation of machines in workshops or utilised the dust-removal device internally installed in the equipment for treatment before emitting exhaust gas to reduce the impact on workers and surrounding environment. In addition, Dongguan Jia Jun always kept the ventilation system on in the workshops during production, periodically cleaned the ventilation machines and their blades and conducted regular maintenance on machines as well as equipment used for dust and smoke filtration, ensuring the normal operation of equipment. During the Year, the Group had not received any notification on the non-compliance in respect of emitting exhaust gas from production, while Dongguan Jia Jun has completed and passed the inspection on exhaust gas and ensured the compliance of exhaust gas emission.

ENVIRONMENTAL PROTECTION *(Continued)*

Pollution Management *(Continued)*

In addition to few exhaust gas from production, the use of vehicles by the Group was also attributable to the generation of exhaust gas. We recorded and monitored the fuel consumption on a continuing basis and periodically reviewed adherence to vehicle emission standards for vehicles, so as to maximise the efficiency of vehicles. Furthermore, we also regularly arranged inspection, repair and maintenance on the vehicles to maintain their efficiency, and tried to avoid the waste of fuel arising from vehicles with running engine.

The Group's vehicle emissions are as follows:

Vehicle Emissions *(Note (1))*	Unit	2021	2020
Nitrogen oxides (NOx)	kg	**12.59** *(Note (2))*	24.07
Sulphur oxides (SOx)	kg	**0.16**	0.16
Particulate matters (PM)	kg	**1.09** *(Note (2))*	2.21

Note:

(1) The vehicle emissions are calculated based on the "Appendix 2: Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.

(2) During the year, Dongguan Jia Jun replaced one of its light vehicles with a private car, resulting in a reduction in NOx and PM emissions.

In addition, despite the fact that the noise generated during the Group's production has no significant impact on the surrounding environment, the Group is committed to strictly controlling the noise generated during its production. During the year, Dongguan Jia Jun has entrusted a third-party testing organization to undertake noise testing to ensure compliance with relevant local and industry standards.

Packing Materials

The Group's packaging materials are mainly used in two ways, including the use of paper cardboard packaging with customised plastic inserts for its self-manufactured products and trading products sourced from third parties in batches, as well as the packaging of various intelligent system parts and optical fiber products. During the Year, Dongguan Jia Jun and Guangzhou Weaving recycled an aggregate of approximately 11.8 tonnes (2020: 12.2 tonnes) of paper-based, wood and plastic packaging material wastes generated, which accounted for approximately 14.9% (2020: 15.4%) of the total packaging materials used by itself.

ENVIRONMENTAL PROTECTION *(Continued)*

Packing Materials *(Continued)*

The consumption of packaging materials by The Group during the Year was as follow:

Use of Packaging Materials *(Note (1))*	Unit	2021 *(Note (2))*
Paper consumption	tonnes	**32**
Paper intensity	kg/thousand products units	**0.018**
Plastic consumption	tonnes	**47**
Plastic intensity	kg/thousand products units	**0.027**
Wood consumption	kg	**67**
Wood intensity	kg/million products units	**0.038**
Foam plastic consumption	kg	**3**
Foam plastic intensity	kg/million products units	**0.002**
Metal consumption	kg	**56**
Metal intensity	kg/million products units	**0.032**

Notes:

(1) Based on the actual packaging materials consumption records of Dongguan Jia Jun and Guangzhou Weaving.

(2) During the Year, the Group has commenced to consolidate the consumption and intensity of packaging materials for Dongguan Jia Jun and Guangzhou Weaving.

EMPLOYMENT AND LABOUR PRACTICES

Occupational Health and Safety

The Company prioritises employee safety and is committed to providing a safe working environment for incumbent employees. As a responsible employer, the Group strictly complies with laws and regulations related to occupational health and safety, including but not limited to the Law of the PRC on Work Safety (《中華人民共和國安全生產法》), the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and the Hong Kong Occupational Safety and Health Ordinance. Dongguan Jia Jun and TD Enterprises have been accredited by ISO45001:2018 Occupational Health and Safety Management System to identify and control health and safety risks, in order to reduce workplace injuries.

In response to hazardous factors of different positions in production processes, the Group provides safety training for relevant employees in advance, including reminding employees of necessary precautions and emergency measures for accidents, and ensuring all the employees are well acquainted with the internal work safety requirements and safe operation regulations, and proficient in safe operation skills, so as to reduce safety risks. In addition, the Group will arrange an annual fire drill for employees, and rectify any deficiencies found during the drill.

The Group pays attention to potential occupational hazards in the working environment. According to the occupational hazards of different jobs, we provide corresponding personal protective equipment for our employees, such as filter gas mask, electrical insulated shoes, anti-acid overalls and anti-noise ear shields. Employees must wear personal protective equipment strictly according to the regulations, and we will regularly check the performance of personal protective equipment to make sure that it is safe to use. We maintain and inspect the production equipment and containers on a regular basis, with a view to reducing accidents. For employees who are exposed to occupational hazards, we also provide regular medical check-ups to fully understand their health status.

Moreover, in an attempt to prevent, control and reduce the occurrence of various safety accidents, minimize the damages caused by accidents, and protect the life and property of the Group and its employees, we provide clear working guidelines for employees to tackle potential accidents in production processes, which covers a series of emergency plans and handling processes for fire, food poisoning, electric shock, typhoon, falling from height and workplace injuries. On top of this, we also have in place duly regulations on the management of work-related injuries, requiring employees to send the injured to the hospital immediately when the accident was found and truthfully report the incident to their superiors, so that the Group can carry out appropriate investigation and follow-up work to prevent the reoccurrence of similar accidents.

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Occupational Health and Safety *(Continued)*

Other occupational health and safety measures adopted by the Group are as follows:

– Providing health checks to its PRC employees prior to commencement of employment;

– Streamlining production process on a continuous basis and reducing or eliminating the use of known hazardous substances in the manufacturing process to the extent practicable;

– Engaging qualified contractors for the inspection of fire safety equipment at the Group's plants and quarters and office premises;

– Providing guidance and specific technical training to employees who may come in contact with potentially hazardous substances;

– Prohibiting smoking at the workplace and factory quarters; and

– Regular cleaning of the water supply filters and daily garbage removal.

During the Year, the number of work injuries and the number of loss days due to work injuries recorded by the Group was zero (the number of work injuries in 2020: 0).The number and rate of work-related fatalities of the Group in the past three years were as follow:

Health and Safety	**2021**	2020	2019
Number of work-related fatalities (persons)	**0**	**0**	0
Rate of work-related fatalities (%)	**0**	**0**	0

Responding to the COVID-19 pandemic

In face of the COVID-19 pandemic, the Group has developed a series of epidemic prevention measures to protect the health of employees and maintain environmental hygiene. Dongguan Jia Jun has set up an epidemic prevention team, which clearly divides the work and coordinates the epidemic prevention work of the company, including material supply, sanitation and disinfection, and temperature check. All employees entering the plants must wear masks and have their temperature check at designated places. Only those whose temperatures within the normal range are permitted to enter the plants. Dongguan Jia Jun strictly checks the epidemic risk of each of the employees. If the employees have visited the severely infected area in the past two weeks, they must be quarantined at home to ensure that they have no symptoms of infection, and they can return to their positions after the completion of observation at home. The Group regularly conducts online epidemic prevention training and promotes the epidemic prevention work among employees to strengthen their awareness of hygiene and epidemic prevention. Meanwhile, the Group also purchased protective materials and distributed masks to employees. In addition, Guangzhou Weaving has complied with the requirements of Guangzhou government to conduct health registration, requiring all persons entering the office building to fill in personal health information through the "Suikang Code", thereby ensuring the health and safety of employees.

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Working Conditions and Welfare

The Group always strives to build a harmonious workplace for employees with the purpose of enhancing sincere and interactive communication, supporting employees' career development, and protecting the interests of employees. We strictly comply with laws and regulations related to employment, including but not limited to the Labor Law of the PRC, the Labor Contract Law of the PRC and Hong Kong Employment Ordinance. We provide equal opportunities and create a harmonious working environment.

The Group offers competitive salary and benefits as well as a career ladder for employees, so as to attract talents. The Group has established the remuneration management system and determines employees' remuneration with reference to their educational background, experience, job duties, professional skills and technical abilities, as well as the salary level for similar job positions in the industry. We also adopted a share option scheme on 23 September 2015, under which employees of the Group that are, based on management's evaluation of their individual performance, eligible will be considered for granting share options as incentives.

In order to guarantee adequate rest for employees and strike a balance between work and life, employees are entitled to legally required paid holidays in addition to statutory holidays. By reviewing the working hours of the employees, we strive to prevent forced labour or overtime work in the business operations as soon as possible. The Group stipulates a working time of standard for eight-hour working day and a five-day working week. If employees are required to work overtime for business purposes, they will be compensated in accordance with the relevant regulations.

In addition, the Group, in accordance with the relevant legal requirements in the PRC and Hong Kong, also makes contribution to the statutory pension scheme for Hong Kong employees, and provides social insurance, annual body checkings, marriage and maternity allowances, housing allowances and external assignment allowances for employees in the PRC. Meanwhile, incumbent employees are also entitled to medical benefits. In a bid to build a warm and harmonious working environment, the Group organizes leisure activities for employees such as annual dinner, birthday parties and lottery, etc., and sends presents to employees at festivals, to allow them to gather outside of work for bonding and team building.

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Vocational Training and Development

In order to promote the sustainable development and efficient operation of the Group, the Group firmly believes that employees are the key to business development and is therefore committed to nurturing talent. In addition to the relevant safety training, the Group provides internal and external training courses regularly for its current employees. The employees must pass the assessment after finishing the training to confirm their learning results and ensure that their professional knowledge and personal development have been improved. The Group introduced a mentorship program whereby senior staff members will supervise new employees, and provide on-job guidance, thus encouraging employees to self-study and learn skills of their work. The head of respective department will also help them to facilitate smooth integration into the Group's operation process. In addition, the Group will invite experts and scholars to hold special seminars according to requirements of work, so as to enhance the academic skills of employees and improve work efficiency.

During the Year, training provided by our Group covered topics such as:

– Job-related knowledge training: including production process, related knowledge and material use, etc.

– Production management training: including production management process and supply chain management

– Quality management training: including the quality standards and assessments of the Group

– ISO system knowledge training: to provide employees with the content and standards of the ISO system

– Administrative management and systems training: to explain the Group's general administrative system, management system and the specific system of individual departments

– Occupational safety and health training: to introduce the knowledge of production safety and fire safety

– Comprehensive management skills training for management personnel: including personnel management and team building

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Vocational Training and Development *(Continued)*

During the Year, the Group has provided in aggregate approximately 9,198 hours (2020: 8,836 hours) of job related vocational training on the above topics to its staff.

Indicator		2021		2020	
		Percentage of employee trained (%)	Average training hours (hours)	Percentage of employee trained (%)	Average training hours (hours)
By gender	Male	81	25.2	84	20.9
	Female	87	25.5	87	20.7
By employment category	Senior	64	20.2	79	24.1
	Middle	94	28.7	92	27.3
	Junior	80	24.2	82	16.8

Meanwhile, the promotion or demotion of employees is conducted by the Group on basis of employees' working competence, performance, experiences and job vacancies. During the Year, the Group continued to adopt an open-door communication policy and carried out an annual review with its employees on their performance, with an aim of giving an equal opportunity of promotion and clear career path for employees.

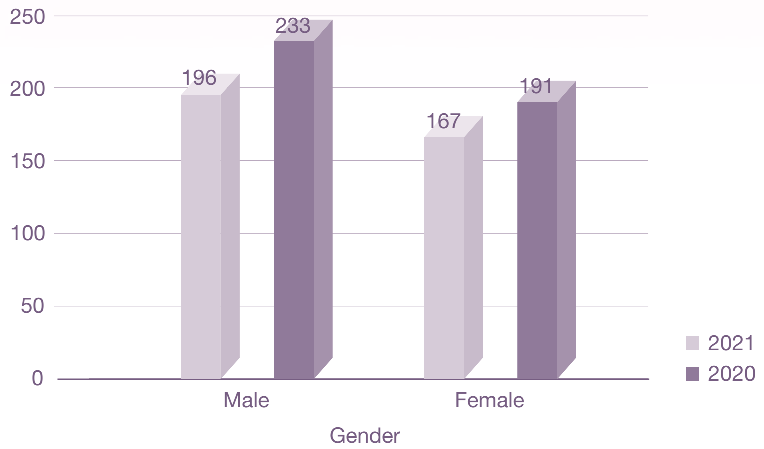
Anti-discrimination, Diversity and Inclusion

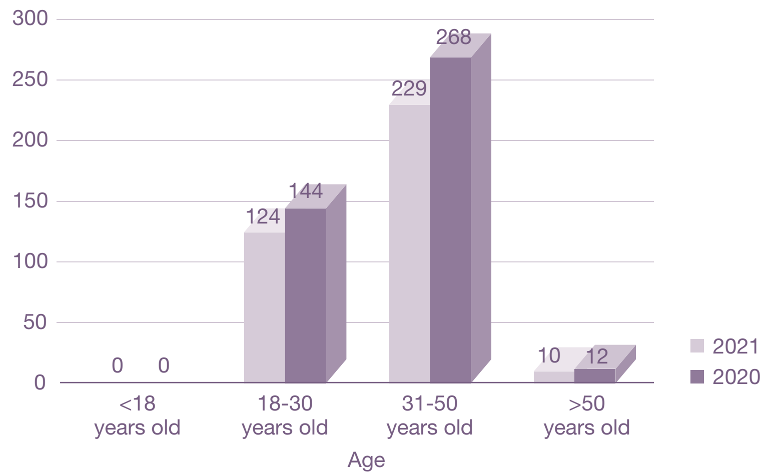
The Group is committed to guarantee that there is no discrimination against potential candidates or incumbent employees on account of their sex, religion, race, color, age, physical conditions or hobbies, etc. The Group is an equal opportunity employer and recruits employees from the open market. During the recruitment, the Group focuses on individual merits and suitability to the relevant job requirements of the applicants, and prohibits discrimination in any form. The Group also prohibits any employee from committing any unethical acts such as violence or stalking against another employee, and employees are protected from harassment by the internal complaint mechanism to complain about unfair matters. The Group has formulated anti-discrimination procedures to prevent unfairness events, and provided complaint channels for employees to handle in a timely manner.

EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Anti-discrimination, Diversity and Inclusion *(Continued)*

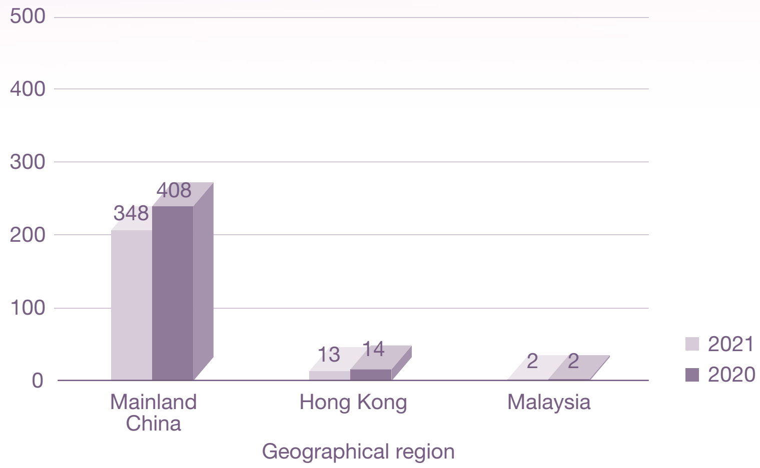
During the Year, the employee composition of the Group within the range of report was as follows:

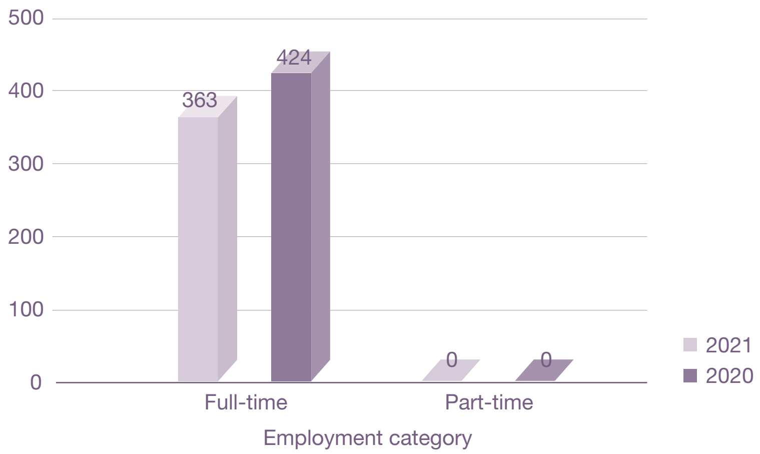




EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Anti-discrimination, Diversity and Inclusion *(Continued)*





EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

Anti-discrimination, Diversity and Inclusion *(Continued)*

During the Year, the employee turnover rate(%) of the Group was as follows:

Indicator		2021	2020
By gender	Male	**39**	43
	Female	**45**	36
By age	<18	**0**	0
	18-30	**49**	59
	31-50	**38**	30
	>50	**18**	25
By region	Mainland China	**43**	41
	Hong Kong	**7**	14
	Malaysia	**0**	0

Anti-child and Forced Labour

As a responsible employer, the Group advocates ethics and human rights at the workplace and explicitly prohibits the behaviours that violate human rights, such as child and forced labour. When engaging new staffs, we require applicants to submit their identity certificate documents to the Group for age verification. The Group will immediately terminate his/her employment and look into the reasons once discovering any employment of child worker who has deliberately concealed his/her age. During the Year, all employees of the Group were aged 18 or above. Before the formal entry of employees, the Group will enter into an employment contract with employees, which explicitly specifies the terms such as working hours, remuneration, insurance and compensation of employees, so as to protect the freedom and interests of employees, and avoid forced labour.

RESPONSIBLE OPERATING PRACTICES

Responsible Procurement

The Group continues to strive to improve the quality of its products and services, and to provide customers and the society with quality products and services by adhering to the principle of sustainable development. Support and co-operation of suppliers are essential to the Group's business operations. In selection of suppliers, we will take the product quality, delivery, production capacity, compliance and other factors as the evaluation criteria, and only suppliers who meet the criteria will be admitted as our qualified suppliers. Moreover, the environmental, health and safety performance of suppliers are taken into consideration in the selection of suppliers by the Group, in which we will give priority to suppliers with ISO quality or environmental management system certifications.

RESPONSIBLE OPERATING PRACTICES *(Continued)*

Responsible Procurement *(Continued)*

Dongguan Jia Jun sets clear requirements for the use and control of suppliers' items such as products, components, raw materials, packaging materials, auxiliary materials to ensure that the products provided by suppliers do not exceed the upper limit of substances of high concern in REACH regulations of the European Union, and do not use ingredients prohibited in RoHS regulations of the European Union, so as to ensure that the Company's products will not affect the human body and the environment. For the products provided by suppliers, we will conduct different analysis and inspection in accordance with the specifications and requirements of relevant raw materials or products to ensure compliance with the statutory safety requirements for upper limit and our quality requirements, and minimise the environmental risk in the supply chain. In addition, in order to achieve resource conservation, Dongguan Jia Jun requires suppliers to provide environment-friendly products according to its business needs, such as minimising product composition in production and design.

The Group also follows an ethical procurement policy and strives to source raw materials and traded goods from socially responsible suppliers. In this regard, the Group trains its staff in charge of supply chain management to, on practicable basis, ensure that the materials and products provided by selected suppliers are in compliance with laws and regulations, as well as such suppliers abiding by employment laws and regulations against slavery and human trafficking, so as to reduce social risks in the supply chain. At the same time, Dongguan Jia Jun has formulated a policy to prohibit the use of any conflict minerals in its products, and has conducted due diligence to ensure that the purchased minerals or products come from legal origins.

In order to reduce environmental and social risks in the supply chain, Dongguan Jia Jun will conduct quality and environmental risk assessments on suppliers, and carry out on-site review on high-risk suppliers. In addition, Dongguan Jia Jun will also require suppliers to fill in a questionnaire to evaluate their performance in social responsibility risks. According to the results of on-site review and questionnaire evaluation, we will give priority to cooperation with suppliers with good evaluation results and remove suppliers who do not meet the cooperation standards from the list of qualified suppliers, so as to ensure supplier practices and their products meet the Group's standards. The management of the Group will also review the procurement process, and the Group may shift to other suppliers to purchase materials or products if deficiencies in a supplier's environmental and social responsibility practices were identified and no improvement implemented as required.

During the Year, all the suppliers of the Group were governed by the aforesaid supplier management procedures, and the number of suppliers by region is as follows:

Distribution of Supplier	2021	2020
Total	**255**	159
By region		
Mainland China	**248**	153
Overseas	**7**	6

RESPONSIBLE OPERATING PRACTICES *(Continued)*

Superior Quality

The Group attaches great importance to providing customers with high-quality and safe products, and strictly complies with laws and regulations in relation to quality, including but not limited to the Product Quality Law of The People's Republic of China and the Construction Law of The People's Republic of China.

As for the assembly, packaging and sales of self-manufactured discrete semiconductors, Dongguan Jia Jun has developed strict material specifications and implemented the Hazardous Substance Process Management System (IECQ QC080000:2017), on practicable basis, to ensure that hazardous substances are reduced or avoided in the production of products. Dongguan Jia Jun also regularly commissions third party testing agencies to evaluate the products it produces, covering the entire product life cycle from the research and development to customer sales and disposal of product waste, to ensure product quality meets specifications, international standards and applicable legal standards. In addition, Dongguan Jia Jun has obtained the ISO9001:2015 Quality Management System Certification and IATF16949：2016 Automotive Quality Management System Certification to ensure customers' access to quality products and services.

In addition, when undertaking the communication network and intelligent system construction business, Guangzhou Weaving adopts strict quality control in the whole process of projects, including random inspection of construction quality during the project inception, construction and completion, as well as the implementation of safety production and safety management objectives. Upon the completion of a project, Guangzhou Weaving also has a warranty period to ensure customers' satisfaction. Guangzhou Weaving has also obtained the ISO9001:2015 Quality Management System Certification.

In course of business, the Group strictly prohibits the staff from deceiving consumers by any false or misleading marketing methods, and insists on good faith and advocates fair competition. The Group attaches great importance to the relationship between customers and the Group and appreciates comments from customers on our products or services. We continue to improve the relevant customer service control procedures and sort out, reply and follow up the feedbacks and complaints from customers and make improvement in a timely manner, in order to enhance the quality of our products, services and management.

During the Year, the Group had not sold or shipped products that needed to be recalled for safety and health reasons. In addition, the Group received three (2020: one) product-related complaints and promptly arranged for the return of the product for the customer, striving to provide high quality services and experiences to our customers.

Intellectual Property Rights and Privacy Protection

The Group has always attached great importance to protecting intellectual property and customer privacy, and strictly abides by intellectual property-related laws and regulations, including but not limited to the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Copyright Law of the People's Republic of China and the Intellectual Property Laws of Hong Kong. In order to protect intellectual property of customers, the Group will only legitimately employ their patents, trademarks and technologies after obtaining their authorisation. We also organise regular trainings related to intellectual property for our employees in a view to raise their awareness of intellectual property protection.

RESPONSIBLE OPERATING PRACTICES *(Continued)*

Intellectual Property Rights and Privacy Protection *(Continued)*

During the Year, Dongguan Jia Jun has obtained 24 (2020: 14) nationally recognised utility model patents for the products and designs developed, recognising and protecting our research and development achievements and technologies. In an attempt to protect privacy of customers, we not only enter confidentiality agreements with employees according to their positions, but also strengthen internal information management so as to prevent any forms of information leakage related to the confidential information of the Group or other commercial secrets. In addition, the Group will also enter into a confidentiality agreement with the cooperating companies, which prohibits both parties from disclosing trade secrets, technical secrets, specific product information, customer names, contact information, technology and data to protect the privacy of customers and the Group.

Anti-corruption

Conducting business with integrity is one of the core values underlying the Group's business operations, the Group believes an effective anti-corruption mechanism is the cornerstone for its sustainable growth and strictly complies with anti-corruption related laws and regulations, including but not limited to the Criminal Law of the People's Republic of China and the Prevention of Bribery Ordinance in Hong Kong. Adhering to the principle of "enhancing the awareness of integrity and zero tolerance for corruption", the Group has provided anti-corruption training and circulated clear work ethics for employees in various departments which strictly prohibit bribery, extortion, fraud, money laundering and other wrongdoings, including gambling and personal loans with persons having business relationships with the Group, misappropriation of the Group's assets, inappropriate charitable donation or sponsorship, unlawful solicitation of business or preferential treatment, provision or acceptance of unreasonable gifts, entertainments or other improper benefits, etc.

The Group also requires its employees to declare any interests in the Group's business partners, suppliers and advisers that may conflict with the Group's business interests. Employees are required to comply strictly with applicable anti-corruption laws and there is a term under the Group's standard employment contract that legal non-compliance will constitute a ground of termination of employment. At the same time, the Group requests its suppliers and business partners to abide by the relevant local anti-corruption laws and regulations. During the Year, the Group approved and adopted a whistleblowing policy to encourage its employees, customers and suppliers to raise concerns about possible misconduct, malpractice or impropriety in any matter relating to the Group. The Group is committed to ensuring that whistleblowers disclose relevant information through confidential channels and that their identities are kept confidential. We deal with reports and conduct investigations accordingly in a prudent and serious manner to ensure that whistleblowers' concerns are taken seriously and treated fairly.

During the Year, the Group did not receive any complaint or notification from governmental authorities regarding non-compliance of the Group or its employees with anti-corruption laws referred to above.

CARE FOR COMMUNITY

While actively developing our business, the Group is also committed to giving back to the community by actively participating in community building responsibilities, caring and serving the disadvantaged groups and promoting social development. During the Year, we continued to actively support local social welfare organisations to strive to fulfill our corporate public welfare responsibilities and actively serve the community. For example, TD Enterprises donated HK$30,000 to sponsor the trainees of Fu Hong Society to participate in a 12-session visual arts course to develop their potential. At the same time, Guangzhou Weaving conducted two clothing donation activities in Guangzhou to warm up the needy in the cold winter, so as to work together to build a harmonious community.

THE ESG REPORTING GUIDE CONTENT INDEX

ESG Indicator	Description	Section	Page No.
ENVIRONMENT			
Aspect A1: Emissions	General Disclosures Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.	Environmental Protection • Greenhouse Gas and Energy Management • Water Resources and Wastewater Management • Waste Management • Pollution Management	50-56
KPI A1.1	The types of emissions and respective emissions data.	Environmental Protection • Pollution Management	56
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection • Greenhouse Gas and Energy Management	50
KPI A1.3	Total hazardous waste produced (in kg) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection • Waste Management	55
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection • Waste Management	55
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Environmental Protection • Greenhouse Gas and Energy Management • Water Resources and Wastewater Management	50-53

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Environmental Protection • Waste Management	54
Aspect A2: Use of Resources	General Disclosures Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection • Greenhouse Gas and Energy Management • Water Resources and Wastewater Management • Packaging Materials	52-53, 56
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Environmental Protection • Greenhouse Gas and Energy Management	52
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Protection • Water Resources and Wastewater Management	53
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Environmental Protection • Greenhouse Gas and Energy Management	52

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Environmental Protection • Water Resources and Wastewater Management	53
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Protection • Packing Materials	57
Aspect A3:The Environment and Natural Resources	General Disclosures Policies on minimizing the issuers' significant impact on the environment and natural resources.	Environmental Protection • Green Operations	49
KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection • Green Operations	49
Aspect A4:Climate Change	General Disclosures Policies on identifying and mitigating significant climate-related issues that have had and may have an impact on the issuer.	Environmental Protection • Greenhouse Gas and Energy Management	50-51
KPI A4.1	Description of significant climate-related issues that have had and may have an impact on the issuer, and the actions taken to manage them.	Environmental Protection • Greenhouse Gas and Energy Management	50-51

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
Social			
Employment and Labour Practices			
Aspect B1: Employment	General Disclosures Information on: (a) the policies; and (b) compliance with relevant laws; and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices • Working Conditions and Welfare • Anti-discrimination, Diversity and Inclusion	60, 62
KPI B1.1	Total workforce by gender, employment type (full-time or part-time), age group and geographical region.	Employment and Labour Practices • Anti-discrimination, Diversity and Inclusion	63-64
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and Labour Practices • Anti-discrimination, Diversity and Inclusion	65
Aspect B2:Health and Safety	General Disclosures Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Practices • Occupational Health and Safety	58-59

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
KPI B2.1	Number and rate of work-related fatalities in each of the past three years (including the reporting year).	Employment and Labour Practices • Occupational Health and Safety	59
KPI B2.2	Lost days due to work injury.	Employment and Labour Practices • Occupational Health and Safety	59
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Employment and Labour Practices • Occupational Health and Safety	58-89
Aspect B3: Development and Training	General Disclosures Policies on improving employees' knowledge and skills for discharging duties at work; and description of training activities.	Employment and Labour Practices • Vocational Training and Development	61-62
KPI B3.1	The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	Employment and Labour Practices • Vocational Training and Development	62
KPI B3.2	The average training hours completed per employee by gender and employee category.	Employment and Labour Practices • Vocational Training and Development	62
Aspect B4：Labour Standards	General Disclosures Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	Employment and Labour Practices • Anti-child and Forced Labour	65

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employment and Labour Practices • Anti-child and Forced Labour	65
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employment and Labour Practices • Anti-child and Forced Labour	65
Operating Practices			
Aspect B5 :Supply Chain Management	General Disclosures Policies on managing environmental and social risks of the supply chain.	Responsible Operating Practices • Responsible Procurement	65-66
KPI B5.1	Number of suppliers by geographical region.	Responsible Operating Practices • Responsible Procurement	66
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Responsible Operating Practices • Responsible Procurement	65-66
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Responsible Operating Practices • Responsible Procurement	65-66
KPI B5.4	Description of practices used to promote environmentally preferable products and service when selecting suppliers, and how they are implemented and monitored.	Responsible Operating Practices • Responsible Procurement	65-66

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
Aspect B6：Product Responsibility	General Disclosures Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Responsible Operating Practices • Superior Quality • Intellectual Property Rights and Privacy Protection	67-68
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Responsible Operating Practices • Superior Quality	67
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Responsible Operating Practices • Superior Quality	67
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Responsible Operating Practices • Intellectual Property Rights and Privacy Protection	67-68
KPI B6.4	Description of quality assurance process and recall procedures.	Responsible Operating Practices • Superior Quality	67
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Responsible Operating Practices • Intellectual Property Rights and Privacy Protection	67-68

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

ESG Indicator	Description	Section	Page No.
Aspect B7： Anti-corruption	General Disclosures Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Responsible Operating Practices • Anti-corruption	68
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Responsible Operating Practices • Anti-corruption	68
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Responsible Operating Practices • Anti-corruption	68
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Responsible Operating Practices • Anti-corruption	68
Community			
Aspect B8：Community Investment	General Disclosures Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Care for Community	68
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Care for Community	68
KPI B8.2	Resources contributed (e.g. money or time) to the focus Area.	Care for Community	68

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信永中和(香港)會計師事務所有限公司
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利園一期43樓

TO THE SHAREHOLDERS OF BRAINHOLE TECHNOLOGY LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Brainhole Technology Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 84 to 169, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follow:

- Revenue recognition on broadband infrastructure construction services;
- Provision of expected credit loss for trade receivables; and
- Impairment for plant and equipment.

KEY AUDIT MATTERS *(Continued)*

Revenue recognition on broadband infrastructure construction services

Refer to note 7 to the consolidated financial statements and the accounting policies on pages 96 to 97.

The key audit matter	How the matter was addressed in our audit
For the year ended 31 December 2021, revenue from broadband infrastructure construction services was approximately HK$54,245,000. The Group has recognised the revenue from broadband infrastructure construction services overtime by applying the output method with reference to the certificates issued by the customers. Significant judgements and estimates have been made by the management when measuring progress towards complete satisfaction of a performance obligation of contracts at the end of the reporting period. We have identified the revenue recognition on broadband infrastructure construction services as a key audit matter in view of the measurement of the progress and outcome of contracts involved significant judgements and estimates, which may be subject to the management bias.	Our procedures were designed to review the management judgements and estimates used in the determination of the progress of contracts. We have assessed the appropriateness of the revenue recognition policy adopted by the management. We tested the amount of revenue recognised through inspecting the relevant supporting documents (such as contracts, completion certificates issued by the customers etc.) and recalculating the percentage on the progress towards complete satisfaction of a performance obligation, on a sample basis. In addition, we also assessed the management judgements and estimates on the progress of contracts when progress certificate was not available by critically challenged their basis of estimation of the total contract revenue.

KEY AUDIT MATTERS *(Continued)*

Provision of expected credit loss (the "ECL") for trade receivables

Refer to note 20 to the consolidated financial statements and the accounting policies on pages 106 to 109.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2021, the carrying amount of the Group's trade receivable was approximately HK$105,494,000 (net of allowance for impairment loss of HK$8,060,000). Impairment loss recognised in respect of trade receivables of approximately HK$5,959,000 has been recognised for the year ended 31 December 2021. We have identified provision of the ECL for trade receivables as a key audit matter because the total carrying amount of trade receivables are significant to the consolidated financial statements and the provision of ECL involves significant judgements and estimates.	Our audit procedures were designed to review the management estimation on ECL including the internal credit ratings determined by the management, the credit risk of the debtors and days past due as groupings of various debtors that have similar loss patterns and challenge the reasonableness and selection of forward-looking information used in the calculation of ECL. We also reviewed the provision matrix based on the Group's historical observed default rates that forward-looking information are considered.

KEY AUDIT MATTERS *(Continued)*

Impairment of plant and equipment

Refer to note 15 to the consolidated financial statements and the accounting policies on pages 112 to 113.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2021, the carrying amount of the Group's plant and equipment (net of impairment loss) was approximately HK$93,306,000. Impairment loss recognised in respect of plant and equipment of approximately HK$15,028,000 has been recognised for the year ended 31 December 2021. We have identified the impairment of plant and equipment as a key audit matter because the total carrying amount of plant and equipment is significant to the consolidated financial statements and the impairment of plant and equipment involved significant judgments, estimates and uncertainty which may be subject to the management bias and uncontrollable.	Our audit procedures were designed to understand and evaluate management's impairment assessment process. We have tested the mathematical accuracy of the value in use calculation of the cash flow forecast and assessed the appropriateness of the methodology used by the management and valuer. In addition, we have tested the key assumptions used in the cash flow forecast, including revenue growth rate and terminal growth rate, based on other available market data in the self-manufactured semiconductors industry taking into account the historical performance of the Group and corroborating with the development plan based on our discussion with the management. We have also tested the discount rate by benchmarking them to the rates used by similar companies in the market.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chui Yiu Cheong.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chui Yiu Cheong
Practising Certificate Number: P07219

Hong Kong
31 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Revenue	7	**321,570**	261,809
Cost of sales		**(267,457)**	(228,294)
Gross profit		**54,113**	33,515
Other income	8	**7,163**	7,888
Selling and distribution costs		**(8,430)**	(7,705)
Administrative expenses		**(80,837)**	(60,566)
Impairment loss on plant and equipment and right-of-use assets		**(15,028)**	(34,879)
Impairment loss on non-current assets classified as held for sale	38	**–**	(2,011)
Finance costs	9	**(8,179)**	(3,355)
Loss before tax		**(51,198)**	(67,113)
Income tax (expense) credit	10	**(354)**	8,358
Loss for the year	11	**(51,552)**	(58,755)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**3,722**	7,201
Total comprehensive expense for the year		**(47,830)**	(51,554)
Loss per share			
– Basic and diluted (HK cents)	13	**(6.44)**	(7.34)

Consolidated Statement of Financial Position
As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Plant and equipment	15	**93,306**	122,464
Right-of-use assets	16	**4,069**	6,987
Finance lease receivable	17	**–**	477
Intangible assets	18	**1,239**	2,425
Deferred tax assets	25	**14,264**	14,261
Prepayment for plant and equipment		**1,204**	4,687
		114,082	151,301
Current assets			
Inventories	19	**49,643**	28,016
Finance lease receivable	17	**491**	419
Trade and other receivables	20	**132,506**	97,971
Contract assets	21	**1,844**	1,487
Amounts due from related companies	24	**11,508**	9,162
Tax recoverable		**911**	485
Bank balances and cash	22	**42,644**	74,150
		239,547	211,690
Non-current assets classified as held for sale	38	**–**	7,349
		239,547	219,039
Current liabilities			
Trade and other payables	23	**120,183**	64,588
Lease liabilities	16	**2,340**	3,110
Deferred income	26	**796**	722
Loan from an immediate holding company	27	**–**	37,331
		123,319	105,751
Net current assets		**116,228**	113,288
Total assets less current liabilities		**230,310**	264,589

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current liabilities			
Lease liabilities	*16*	**2,480**	4,685
Deferred tax liability	*25*	**313**	340
Deferred income	*26*	**5,086**	4,925
Loan from an immediate holding company	*27*	**25,100**	1,941
Loans from related companies	*28*	**55,007**	66,060
		87,986	77,951
		142,324	186,638
Capital and reserves			
Share capital	*29*	**8,000**	8,000
Reserves		**134,324**	178,638
		142,324	186,638

The consolidated financial statements on pages 84 to 169 were approved and authorised for issue by the board of directors on 31 March 2022 and are signed on its behalf by:

Mr. Zhang Liang Johnson
Director

Ms. Wan Duo
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital HK$'000 (note 29(a))	Share premium HK$'000	Statutory reserve HK$'000 (note 29(b)(i))	Capital reserve HK$'000 (note 29(b)(ii))	Translation reserve HK$'000	Merger reserve HK$'000 (note 29(b)(iii))	Retained profits HK$'000	Total HK$'000
At 1 January 2020	8,000	104,098	7,437	(11,140)	(14,926)	12,778	118,633	224,880
Loss for the year	–	–	–	–	–	–	(58,755)	(58,755)
Other comprehensive income for the year:								
Exchange difference arising on translation of foreign operations	–	–	–	–	7,201	–	–	7,201
Total comprehensive income (expense) for the year	–	–	–	–	7,201	–	(58,755)	(51,554)
Deemed contribution from an immediate holding company and related companies *(note 27 and 28)*	–	–	–	13,312	–	–	–	13,312
Transfer to statutory reserve	–	–	845	–	–	–	(845)	–
At 31 December 2020	8,000	104,098	8,282	2,172	(7,725)	12,778	59,033	186,638

	Share capital HK$'000 (note 29(a))	Share premium HK$'000	Statutory reserve HK$'000 (note 29(b)(i))	Capital reserve HK$'000 (note 29(b)(ii))	Translation reserve HK$'000	Merger reserve HK$'000 (note 29(b)(iii))	Retained profits HK$'000	Total HK$'000
At 1 January 2021	8,000	104,098	8,282	2,172	(7,725)	12,778	59,033	186,638
Loss for the year	–	–	–	–	–	–	(51,552)	(51,552)
Other comprehensive income for the year:								
Exchange difference arising on translation of foreign operations	–	–	–	–	3,722	–	–	3,722
Total comprehensive income (expense) for the year	–	–	–	–	3,722	–	(51,552)	(47,830)
Deemed contribution from an immediate holding company *(note 27)*	–	–	–	3,516	–	–	–	3,516
Transfer to statutory reserve	–	–	177	–	–	–	(177)	–
At 31 December 2021	8,000	104,098	8,459	5,688	(4,003)	12,778	7,304	142,324

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(51,198)	(67,113)
Adjustments for:		
Amortisation of intangible assets	181	238
Amortisation of deferred income	(1,609)	(756)
Bank interest income	(547)	(209)
Depreciation of plant and equipment	19,765	22,647
Depreciation of right-of-use assets	3,455	3,376
Finance costs	8,179	3,355
Interest income on finance lease	(94)	(134)
Government grants	(1,298)	(1,921)
Write-off of plant and equipment	49	3
Write-off of intangible asset	1,058	–
Write-off of other receivables	367	–
Gain on disposal of plant and equipment	(2,599)	(55)
Gain on disposal of intangible asset	(90)	–
Impairment loss (reversal of impairment loss) on contract assets	410	(1)
Impairment loss (reversal of impairment loss) on trade receivables, net	5,959	(203)
Impairment loss on inventories	–	1,759
Impairment loss on right-of-use assets	–	396
Impairment loss on plant and equipment	15,028	34,483
Impairment loss on non-current assets classified as held for sale	–	2,011
Impairment loss on amounts due from related companies	2,933	–
Loss on disposal of non-current assets classified as held for sale	766	759
Operating cash flows before movements in working capital	715	(1,365)
(Increase) decrease in inventories	(21,405)	2,825
Decrease in finance lease receivable	519	459
(Increase) decrease in trade and other receivables	(30,019)	23,667
Increase in contract assets	(719)	(446)
Increase in amounts due from related companies	(4,980)	(1,258)
Increase (decrease) in trade and other payables	55,760	(31,220)
Cash used in operations	(129)	(7,338)
Hong Kong profits tax refund, net	–	2,147
PRC enterprise income tax (paid) refund, net	(406)	266
NET CASH USED IN OPERATING ACTIVITIES	(535)	(4,925)

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 *HK$'000*	2020 *HK$'000*
INVESTING ACTIVITIES		
Acquisition of plant and equipment	**(4,383)**	(11,401)
Prepayment for plant and equipment	**(39)**	(2,390)
Repayment of consideration payable	**–**	(50,542)
Bank interest received	**547**	209
Proceeds from disposal of plant and equipment	**–**	3,373
Proceeds from disposal of intangible asset	**90**	–
Proceeds from disposal of non-current assets classified as held for sale	**5,260**	5,667
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**1,475**	(55,084)
FINANCING ACTIVITIES		
Repayment to an immediate holding company	**(16,000)**	(13,630)
Repayment to related companies	**(17,378)**	–
New loans obtained from related companies	**–**	75,923
Government grants received	**2,975**	5,905
Repayment of lease liabilities	**(3,795)**	(3,647)
New loans obtained from an immediate holding company	**3,200**	16,500
Interest expenses paid	**–**	(473)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(30,998)**	80,578
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(30,058)**	20,569
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**74,150**	56,018
Effect of foreign exchange rate changes	**(1,448)**	(2,437)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR REPRESENTED BY BANK BALANCES AND CASH	**42,644**	74,150

1. GENERAL INFORMATION

Brainhole Technology Limited was incorporated in the Cayman Islands on 10 September 2014 as an exempted company with limited liability under the Cayman Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its issued shares had been listed on The Hong Kong Stock Exchange Limited (the "Stock Exchange") since 2017.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of the principal place of business of the Company is Office A, 31st Floor, Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong. Its immediate holding company is Yoho Bravo Limited ("Yoho"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability and its ultimate controlling party is Mr. Zhang Liang Johnson ("Mr. Zhang").

The Company is principally engaged in investment holding and the principal activities of its subsidiaries (together with the Company collectively referred to as the "Group") are set out in note 36.

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

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

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2021:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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

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

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts and related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021[1]
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 cycle[2]

1 Effective for annual periods beginning on or after 1 April 2021.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for annual periods beginning on or after 1 January 2023.

4 Effective for annual periods beginning on or after a date to be determined.

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

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

New and amendments to HKFRSs issued but not yet effective *(Continued)*

Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020)

The amendments to HKAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Hong Kong Interpretation 5 was revised as a consequence of Amendments to HKAS 1 Classification of Liabilities as Current or Non-current to align the corresponding wordings with no change in conclusion.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in change in the classification of the Group's liabilities.

Amendments to HKAS 16 – Property, Plant and Equipment – Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with HKAS 2 Inventories.

The amendments also clarify the meaning of "testing whether an asset is functioning properly". HKAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the consolidated statement of profit or loss and other comprehensive income, the consolidated financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the consolidated statement of profit or loss and other comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the consolidated financial statements in which the entity first applies the amendments.

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

New and amendments to HKFRSs issued but not yet effective *(Continued)*

Amendments to HKAS 16 – Property, Plant and Equipment – Proceeds before Intended Use *(Continued)*

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

The amendments change the requirements in HKAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in the Group's consolidated financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements.

The supporting paragraphs in HKAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

Guidance and examples were provided to explain and demonstrate the application of the "four-step materiality process" described in HKFRS Practice Statement 2. The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

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

New and amendments to HKFRSs issued but not yet effective *(Continued)*

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments to HKAS 8 introduce the definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period, with earlier application permitted.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group currently applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$4,069,000 and HK$4,820,000 respectively. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements as the net temporary differences relating to relevant assets and liabilities are insignificant.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of a subsidiary are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes discounts and sales related taxes.

Contract assets

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Revenue recognition *(Continued)*

The Group recognised revenue from the following major sources:

Sales of goods

Revenue from sales of goods (i.e. sales of electronic and electrical parts and components manufactured by the Group or sourced from third-party suppliers) is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

Promotion of broadband and provision of smart domain solution services

Commission income from promotion of broadband and revenue from provision of smart domain solution services are recognised at a point in time when the services are performed by the Group.

Provision of broadband infrastructure construction services

The Group provides broadband infrastructure construction services under contract with customers. Under the terms of the contracts, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue from provision of broadband infrastructure construction services is therefore recognised over time.

The Group also generally agrees to a one to two years retention period for 5% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Output method)

Revenue from provision of broadband infrastructure construction services is recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Leasing

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. 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 from the commencement date and do not contain a purchase option) 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), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing *(Continued)*

The Group as lessee *(Continued)*

Lease liabilities (Continued)

The lease liability is presented as a separate line in the 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 significant event or change in circumstances resulting in 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 based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and 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 on the 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Leasing *(Continued)*

The Group as lessee *(Continued)*

Lease modification

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group as lessor

The Group enters into lease agreement as a lessor with respect to its broadband infrastructures and software. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amount due from lessee under finance lease is recognised as receivable at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the “MPF Scheme”) are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense (credit) represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax liabilities and assets on a net basis.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Taxation *(Continued)*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production or supply are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value of inventories represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and short-term deposit in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposit, as defined above.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and effective interest method (Continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the “Other income” line item (note 8).

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost, financial lease receivables and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets, finance lease receivable and amounts due from related companies (trade-nature). Except for credit-impaired balances, the ECL on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological;
- environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or past due event; or
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 Lease.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is 1) contingent consideration of an acquirer in a business combination to which HKFRS 3 *Definition of a Business applies*, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the "finance costs" line item in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities (Continued)

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Impairment losses on plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Impairment losses on plant and equipment, right-of-use assets and intangible assets *(Continued)*

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Fair value measurement

When measuring fair value except for the Group's leasing transactions, net realisable value of inventories, value in use of plant and equipment and fair value less cost of disposal of non-current asset classified as held for sale for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition on broadband infrastructure construction services

The Group recognises contract revenue over time using an output method. The revenue recognition on broadband infrastructure construction services is dependent on management's judgements and estimation of the satisfaction of performance obligation, by reference to the progress certificate issued by the customers. Notwithstanding that the Group reviews and revises the judgements and estimates on contract progresses, the actual outcome of the contract in terms of its total revenue may be higher or lower than the estimates and this will affect the amount of revenue recognition.

Income taxes

As at 31 December 2021, a deferred tax asset of HK$14,264,000 (2020: HK$14,261,000) in relation to deductible temporary difference has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on deductible temporary differences and tax losses of approximately HK$3,147,000 and HK$138,206,000 (2020: HK$3,057,000 and HK$91,039,000) respectively due to the unpredictability of future profit streams for certain subsidiaries. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

4. **KEY SOURCES OF ESTIMATION UNCERTAINTY** *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Provision of ECL for trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. Except for credit-impaired balances, the Group uses a provision matrix to calculate the ECL for trade receivables. The provision rates are based on internal credit ratings, the credit risk of the debtors and days past due as groupings of various debtors that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking information are considered. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2021, the carrying amount of trade receivables was approximately HK$105,494,000 (2020: HK$88,367,000), net of allowance of impairment loss of approximately HK$8,060,000 (2020: HK$1,965,000).

Estimated impairment assessment of plant and equipment

Property, plant and equipment is stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs.

The future cash flow is estimated based on past performance and expectation for market development. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections could materially affect the recoverable amounts.

As at 31 December 2021, the carrying amounts of plant and equipment was approximately HK$93,306,000 (2020: HK$122,464,000). Details of the impairment of plant and equipment are disclosed in notes 15. Further details are given in relevant note.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated useful life of plant and equipment

At the end of each reporting period, the directors of the Company review the estimated useful life of plant and equipment with finite useful life. The carrying amount of plant and equipment with finite useful life as at 31 December 2021 is approximately HK$86,117,000 (2020: HK$116,279,000). During the current year, the directors of the Company determined the useful lives of certain items are not required to be revised.

Estimated allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2020, the carrying amount of inventories was approximately HK$28,016,000 (2021: HK$49,643,000), net of accumulated allowance for obsolete inventories of approximately HK$3,252,000 (2021: nil). Net impairment loss of approximately HK$1,759,000 (2021: nil) was recognised for the year ended 31 December 2020.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which include loan from immediate holding company, loan from related company and consideration payable, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends and new share issues. The directors of the Company will also consider the raise of borrowings as second source of capital.

The directors of the Company also endeavour to ensure the steady and reliable cash flows from the normal business operation.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021 HK$'000	2020 HK$'000
Financial assets		
Financial assets at amortised cost	**172,270**	175,743
Financial liabilities		
Financial liabilities at amortised cost	**199,587**	169,307

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related companies (trade-nature), bank balances and cash, trade and other payables. loan from immediate holding company and loans from related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan from immediate holding company.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The Group currently does not have interest rate hedging policy. However, the directors of the Company closely monitor its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Sensitivity analysis

No sensitivity analysis is presented as the Group's exposure to interest rate is not significant.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Market risk *(Continued)*

(ii) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 36% (2020: 41%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 96% (2020: 94%) of the Group's purchases is denominated in the group entity's respective functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2021	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars ("USD")	**29,498**	34,395	**2,668**	2,713
Renminbi ("RMB")	**96**	4,818	**–**	–
	29,594	39,213	**2,668**	2,713

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Market risk *(Continued)*

(ii) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to fluctuation against foreign currencies USD and RMB.

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in functional currency of respective group entities against the relevant foreign currencies. 5% (2020: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2020: 5%) change in foreign currency rates.

A positive number below indicates an increase in post-tax profit where the functional currency of respective group entities weaken by 5% (2020: 5%) against the relevant foreign currencies. For a 5% (2020: 5%) strengthening of the functional currency of respective group entities against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit and the balance would be negative.

	2021	2020
	HK$'000	*HK$'000*
Effect on post-tax profit		
USD	**1,120**	1,323
RMB	**4**	201

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk

As at 31 December 2021 and 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from bank balances and cash, trade and other receivables, amounts due from related companies (trade-nature), finance lease receivable and contract assets. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables, finance lease receivable, contract assets and amounts due from related companies (trade-nature), the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for credit-impaired customers and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For all other financial instruments, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Group's own trading records to rate its customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Internal credit rating	Description	Trade receivables/ finance lease receivable/contract assets/amounts due from related companies (trade-nature)	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit impaired	12-month ECL
Medium risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit impaired	12-month ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit impaired	Lifetime ECL – not credit impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

The table below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk.

For the year ended 31 December 2021

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Trade receivables	Note	Lifetime ECL (simplified approach)	109,091	(4,602)	104,489
	Loss	Lifetime ECL (credit-impaired)	4,463	(3,458)	1,005
Other receivables	Low risk	12-month ECL	12,624	–	12,624
Finance lease receivable	Note	Lifetime ECL (simplified approach)	491	–	491
Contract assets	Note	Lifetime ECL (simplified approach)	1,749	(58)	1,691
	Loss	Lifetime ECL (credit-impaired)	516	(363)	153
Amounts due from related companies (trade-nature)	Note	Lifetime ECL (simplified approach)	14,483	(2,975)	11,508

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

For the year ended 31 December 2020

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Trade receivables	Note	Lifetime ECL (simplified approach)	89,281	(914)	88,367
	Loss	Lifetime ECL (credit-impaired)	1,051	(1,051)	–
Other receivables	Low risk	12-month ECL	4,064	–	4,064
Finance lease receivable	Note	Lifetime ECL (simplified approach)	896	–	896
Contract assets	Note	Lifetime ECL (simplified approach)	1,492	(5)	1,487
Amounts due from related companies (trade-nature)	Note	Lifetime ECL (simplified approach)	9,162	–	9,162

Note: The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating and past due status.

The Group has concentration of credit risk as 7% (2020: 6%) of the total trade receivables as at 31 December 2021 was due from the Group's largest customer and 22% (2020: 30%) of the total trade receivables as at 31 December 2021 was due from the Group's five largest customers.

However, management considers the credit risk is under control since the management exercise due care in granting credits and reviews the recoverable amount of each balances at the end of each reporting period to ensure adequate impairment loss has been made for irrecoverable amount.

The Group's concentration of credit risk by geographical locations is mainly in the Korea and the PRC, which accounted for 6% and 71% respectively (2020: 7% and 77%) of the total trade receivables as at 31 December 2021.

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Liquidity risk

As at 31 December 2021, the Group is exposed to liquidity risk as the Group incurred loss of approximately HK$51,552,000 (2020: HK$58,755,000). In the management of the liquidity risk, the Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and long term.

The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period taking into account there is sufficient bank balances and cash.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities and lease liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	On demand or less than 1 year *HK$'000*	1 to 2 years *HK$'000*	3 to 5 years *HK$'000*	Total Undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2021					
Trade and other payables	119,480	–	–	119,480	119,480
Lease liabilities	2,562	1,629	977	5,168	4,820
Loan from an immediate holding company	–	25,873	2,500	28,373	25,100
Loans from related companies	–	38,814	24,000	62,814	55,007
	122,042	66,316	27,477	215,835	204,407

6. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Liquidity risk *(Continued)*

	On demand or less than 1 year *HK$'000*	1 to 2 years *HK$'000*	3 to 5 years *HK$'000*	Total Undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2020					
Trade and other payables	63,975	–	–	63,975	63,975
Lease liabilities	3,485	2,411	2,622	8,518	7,795
Loan from an immediate holding company	38,299	–	2,500	40,799	39,272
Loans from related companies	–	–	78,829	78,829	66,060
	105,759	2,411	83,951	192,121	177,102

As at 31 December 2020, loan from an immediate holding company with aggregate principal amount of approximately HK$37,920,000 (2021: nil) that contain a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the immediate holding company will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment date set out in the loan agreement. At that time, the total principal and interest cash outflows will amount to HK$37,920,000 (2021: N/A) and approximately HK$379,000 (2021: N/A) respectively.

(c) **Fair values of financial instruments**

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

7. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods 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 segments are as follows:

a) Manufacturing segment engages in selling of electronic and electrical parts and components manufactured by the Group.

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

c) Broadband infrastructure and smart domain segment engages in the provision of broadband infrastructure construction services, promotion of broadband services, smart domain solution services and operating leases for broadband infrastructure.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the method used to distribute the products and/or the nature of production processes.

Despite that all of the Group's products are of a similar nature, they are subject to different risks and returns. Accordingly, the Group's operating activities are attributable to manufacturing, trading and broadband infrastructure and smart domain segments.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue represents revenue arising from the manufacturing and trading of electronic and electrical parts and components, 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 year is as follows:

	2021 ***HK$'000***	2020 *HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Manufacturing of electronic goods	**129,479**	122,169
Trading of electronic goods	**91,742**	70,671
Broadband infrastructure and smart domain:		
Broadband infrastructure construction services	**54,245**	39,006
Commission income	**13,741**	13,607
Provision of smart domain solution services and others	**27,158**	12,320
	316,365	257,773
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	**5,205**	4,036
	321,570	261,809

Disaggregation of revenue from contracts with customers by timing of recognition

	2021 ***HK$'000***	2020 *HK$'000*
Timing of revenue recognition		
At a point in time	**262,120**	218,767
Over time	**54,245**	39,006
Total revenue from contracts with customers	**316,365**	257,773

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at 31 December 2021 and 2020 and the expected timing of recognition are, as follow:

	2021 ***HK$'000***	2020 *HK$'000*
Within one year	**18,393**	18,555
More than one year	**16,317**	9,309
	34,710	27,864

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

For other types of revenue, as those contracts are with an original expected duration of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

Segment revenues and results

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

	Manufacturing		Trading		Broadband infrastructure and smart domain		Total	
	2021 *HK$'000*	**2020** *HK$'000*	**2021** *HK$'000*	**2020** *HK$'000*	**2021** *HK$'000*	**2020** *HK$'000*	**2021** *HK$'000*	**2020** *HK$'000*
Segment revenue	**129,479**	122,169	**91,742**	70,671	**100,349**	68,969	**321,570**	261,809
Segment profit (loss)	**1,121**	(36,065)	**9,465**	5,734	**(9,856)**	4,692	**730**	(25,639)
Unallocated income							**1,395**	5,131
Unallocated expenses							**(53,323)**	(46,605)
Loss before tax							**(51,198)**	(67,113)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by (loss from) 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.

7. **REVENUE AND SEGMENT INFORMATION** *(Continued)*

Segment assets and liabilities

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

	2021 *HK$'000*	2020 *HK$'000*
Segment assets		
Manufacturing	**138,100**	174,083
Trading	**27,503**	21,095
Broadband infrastructure and smart domain	**142,263**	128,917
Unallocated	**45,763**	46,245
Total assets	**353,629**	370,340
Segment liabilities		
Manufacturing	**22,546**	15,915
Trading	**20,634**	11,485
Broadband infrastructure and smart domain	**77,646**	40,726
Unallocated	**90,479**	115,576
Total liabilities	**211,305**	183,702

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain plant and equipment and right-of-use assets for administrative purpose, certain intangible assets, tax recoverable, certain other receivables and prepayments and certain bank balances and cash as these assets are managed on a group basis; and

- all liabilities are allocated to operating segments other than certain other payables, certain lease liabilities, deferred tax liability, loan from an immediate holding company and loans from related companies.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2021

	Manufacturing *HK$'000*	Trading *HK$'000*	Broadband infrastructure and smart domain *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segments profit or segment assets:					
Depreciation of plant and equipment	16,248	–	2,388	1,129	19,765
Depreciation of right-of-use assets	959	–	1,295	1,201	3,455
Impairment loss on plant and equipment	15,028	–	–	–	15,028
(Reversal of impairment loss) impairment loss on trade receivables, net	(76)	(46)	6,081	–	5,959
Impairment loss on contract assets	–	–	410	–	410
Impairment loss on amounts due from related companies (trade-nature)	–	–	2,933	–	2,933
Write-off of plant and equipment	43	–	–	6	49
Write-off of intangible asset	–	–	1,058	–	1,058
Write-off of other receivables	–	–	367	–	367
Amortisation of intangible assets	–	–	181	–	181
Additions to non-current assets *(note)*	2,026	–	2,335	464	4,825
Gain on disposal of plant and equipment	(2,599)	–	–	–	(2,599)
Loss on disposal of non-current assets classified as held for sale	766	–	–	–	766
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Bank interest income	–	–	(538)	(9)	(547)
Finance costs	–	–	140	8,039	8,179

Note: Non-current assets excluded intangible assets and deferred tax assets.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2020

	Manufacturing *HK$'000*	Trading *HK$'000*	Broadband infrastructure and smart domain *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segments loss (profit) or segment assets:					
Depreciation of plant and equipment	18,896	–	1,810	1,941	22,647
Depreciation of right-of-use assets	872	–	1,303	1,201	3,376
Impairment loss on plant and equipment	34,483	–	–	–	34,483
Impairment loss on non-current assets classified as held for sale	2,011	–	–	–	2,011
Impairment loss on inventories, net	1,759	–	–	–	1,759
Impairment loss on right-of-use assets	396	–	–	–	396
(Reversal of impairment loss) impairment loss on trade receivables, net	(209)	(111)	117	–	(203)
Reversal of impairment loss on contract assets	–	–	(1)	–	(1)
Write-off of plant and equipment	2	–	–	1	3
Amortisation of intangible assets	–	–	238	–	238
Additions to non-current assets *(note)*	13,603	–	9,792	2,832	26,227
Gain on disposal of plant and equipment	(55)	–	–	–	(55)
Loss on disposal of non-current assets classified as held for sale	759	–	–	–	759
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Bank interest income	–	–	(200)	(9)	(209)
Finance costs	–	–	272	3,083	3,355

Note: Non-current assets excluded intangible assets and deferred tax assets.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of the operations of customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Hong Kong *HK$'000*	The PRC (excluding Hong Kong) *HK$'000*	Asia (excluding Korea, the PRC and Hong Kong) *HK$'000*	Korea *HK$'000*	Europe and other *HK$'000*	Total *HK$'000*
Revenue from external customers						
For the year ended 31 December 2021	58,804	181,516	46,306	31,363	3,581	321,570
For the year ended 31 December 2020	21,003	176,659	34,742	26,986	2,419	261,809
Non-current assets (note)						
As at 31 December 2021	632	99,186	–	–	–	99,818
As at 31 December 2020	1,809	135,231	–	–	–	137,040

Note: Non-current assets excluded deferred tax assets.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2021 ***HK$'000***	2020 *HK$'000*
Customer A[1]	**32,126**	27,321
Customer B[1]	**37,770**	N/A[2]
Customer C[1]	**35,031**	N/A[2]

1 Revenue from manufacturing and trading segment.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

8. OTHER INCOME

	2021 HK$'000	2020 HK$'000
Government grants *(note)*	**1,298**	1,921
Exchange gains, net	**–**	3,665
Bank interest income	**547**	209
Interest income on finance lease	**94**	134
Amortisation of deferred income *(note 26)*	**1,609**	756
Reversal of impairment loss on trade receivables, net *(note 20)*	**–**	203
Reversal of impairment loss on contract assets *(note 21)*	**–**	1
Gain on disposal of plant and equipment	**2,599**	–
Sundry income	**1,016**	999
	7,163	7,888

Note: During the years ended 31 December 2021 and 2020, government grants of HK$1,298,000 and HK$1,204,000 respectively related to the support of the subsidiaries' operations and certain research projects were received from the local government authorities in the PRC and Hong Kong. The Group fulfilled all conditions attached to the subsidies and recognised as other income upon receipts during the years ended 31 December 2021 and 2020.

During the year ended 31 December 2020, the government grants also included the amount of HK$717,000 (2021: nil) related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There were no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

9. FINANCE COSTS

	2021 HK$'000	2020 HK$'000
Interest on:		
Lease liabilities *(note 16(iii))*	**260**	319
Loan from an immediate holding company *(note 27)*	**2,034**	1,917
Loans from related companies *(note 28)*	**3,400**	606
Loss on early repayment of loan from an immediate holding company *(note)*	**761**	410
Loss on early repayment of loans from related companies *(note)*	**1,724**	–
Others	**–**	103
	8,179	3,355

Note: The amounts represent the difference between the outstanding carrying amount of the loans measured at fair value and the outstanding principal loan amount according to loan agreement at the date of early repayment. For the details, please refer to note 27 and 28.

10. INCOME TAX EXPENSE (CREDIT)

	2021 **HK$'000**	2020 HK$'000
Current tax:		
Hong Kong	–	15
The PRC	–	399
	–	414
Over provision in prior years:		
Hong Kong	**(16)**	–
The PRC	**(3)**	(306)
	(19)	(306)
Deferred tax *(note 25)*	**373**	(8,466)
	354	(8,358)

(a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in these jurisdictions.

(b) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2021 and 2020.

(c) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

For the years ended 31 December 2021 and 2020, the PRC subsidiary, Guangzhou Weaving Communications Telecommunications Technology Limited ("Guangzhou Weaving"), was recognised by the PRC government as "High and New Technology Enterprises" and were eligible to a preferential tax rate of 15%.

No provision for Enterprise Income Tax has been made as the Group did not have any taxable profits subject to Enterprise Income Tax for the year ended 31 December 2021.

10. INCOME TAX EXPENSE (CREDIT) *(Continued)*

The income tax expense (credit) for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 *HK$'000*	2020 *HK$'000*
Loss before tax	**(51,198)**	(67,113)
Tax at the domestic income tax rate of 16.5% (2020: 16.5%)	**(8,448)**	(11,073)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,485)**	(5,227)
Tax effect of expenses not deductible for tax purpose	**3,223**	1,421
Tax effect of income not taxable for tax purpose	**(151)**	(500)
Tax effect of super deduction on research and development expenses	**(2,670)**	(1,573)
Effect of two-tiered profits tax rates regime	**–**	(25)
Tax effect of tax losses not recognised	**9,904**	12,401
Utilisation of tax losses previously not recognised	**–**	(45)
Over provision in respect of prior years	**(19)**	(306)
Effect of change in tax rate regarding to recognised deductible temporary difference	**–**	(3,299)
Effect of tax exemptions granted *(note)*	**–**	(10)
Other	**–**	(122)
Income tax expense (credit) for the year	**354**	(8,358)

Details of the deferred taxation are set out in note 25.

Note: A tax concession of 100% (2020: 100%), subject to a ceiling of HK$10,000 (2020: HK$10,000) per company, for the Group's subsidiaries subject to Hong Kong Profits Tax for year ended 31 December 2021.

11. LOSS FOR THE YEAR

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

	2021 HK$'000	2020 HK$'000
Emoluments of the directors of the Company and chief executive *(note 14)*:		
Salaries and allowances	2,006	3,513
Retirement benefits scheme contributions	2	18
Other staff costs:		
Salaries and allowances *(note)*	58,460	52,704
Retirement benefits scheme contributions	6,068	2,922
Total staff costs	66,536	59,157
Auditors' remuneration	778	786
Amount of inventories recognised as expenses	197,482	179,340
Amortisation of intangible assets	181	238
Depreciation of plant and equipment	19,765	22,647
Depreciation of right-of-use assets	3,455	3,376
Research and development costs *(note)*	13,481	12,955
Impairment loss on inventories	–	1,759
Impairment loss (reversal of impairment loss) on trade receivables, net	5,959	(203)
Impairment loss (reversal of impairment loss) on contract assets	410	(1)
Gain on disposal of plant and equipment	(2,599)	(55)
Impairment loss recognised on plant and equipment	15,028	34,483
Impairment loss recognised on right-of-use assets	–	396
Loss on disposal of non-current assets classified as held for sale	766	759
Write-off of plant and equipment	49	3
Impairment loss recognised on amounts due from related companies (trade-nature)	2,933	–
Gain on disposal of intangible asset	(90)	–
Write-off of intangible asset	1,058	–
Write-off of other receivables	367	–

Note: Included in research and development costs were staff cost of HK$9,427,000 (2020: HK$7,886,000), which were included in other staff costs disclosure above.

12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2021, nor has any dividend been proposed since the end of the reporting period (2020: nil).

13. 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:

	2021	2020
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share	**(51,552)**	(58,755)

	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**800,000**	800,000

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2021 and 2020.

14. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES

The emoluments paid or payable to each of the six (2020: six) directors, which include the chief executive of the Group, were as follows:

	Executive directors			Independent non-executive directors			
For the year ended 31 December 2021	Mr. Zhang (Chairman) *HK$'000*	Ms. Wan Duo *HK$'000*	Mr. Tong Wen-hsin *HK$'000* *(note i)*	Mr. Chen Johnson Xi *HK$'000*	Mr. Xu Liang *HK$'000*	Ms. Zhang Yibo *HK$'000*	Total *HK$'000*
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings							
Fees	–	–	–	180	180	180	540
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings							
Other emoluments							
– Salaries and allowances	–	480	986	–	–	–	1,466
– Contributions to retirement benefits schemes	–	–	2	–	–	–	2
	–	480	988	180	180	180	2,008

14. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES *(Continued)*

For the year ended 31 December 2020	Executive directors			Independent non-executive directors			
	Mr. Zhang (Chairman) *HK$'000*	Ms. Wan Duo *HK$'000*	Mr. Tong Wen-hsin *HK$'000* *(note i)*	Mr. Chen Johnson Xi *HK$'000*	Mr. Xu Liang *HK$'000*	Ms. Zhang Yibo *HK$'000*	Total *HK$'000*
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings							
Fees	–	–	–	180	180	180	540
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings							
Other emoluments							
– Salaries and allowances	–	480	2,493	–	–	–	2,973
– Contributions to retirement benefits schemes	–	–	18	–	–	–	18
	–	480	2,511	180	180	180	3,531

Note:

(i) Re-designated as chief executive on 23 April 2020 and resigned on 1 February 2021.

14. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES *(Continued)*

Of the five individuals with the highest emoluments in the Group, none of them (2020: one) was the director and chief executive of the Company. The emoluments of the five (2020: remaining four) individuals were as follows:

	2021	2020
	HK$'000	*HK$'000*
Salaries and allowances	**8,508**	6,134
Discretionary bonus	**2,677**	577
Retirement benefits scheme contributions	**197**	100
	11,382	6,811

Their emoluments were within the following bands:

	2021	2020
	No. of employees	No. of employees
HK$1,000,001 to HK$1,500,000	**3**	3
HK$2,000,001 to HK$2,500,000	**1**	–
Above HK$2,500,000	**1**	1
	5	4

No emoluments were paid by the Group to any of the directors (including the chief executive) of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2021 and 2020.

During the years ended 31 December 2021 and 2020, the director, Mr. Zhang, waived his salaries of HK$480,000 (2020: HK$480,000). Except for Mr. Zhang, no directors (including the chief executive) of the Company or the five highest paid individuals waived or agreed to waive any emoluments paid by the Group during the years ended 31 December 2021 and 2020.

15. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Broadband infrastructure and network equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2020	12,928	152,524	6,271	22,569	7,817	202,109
Additions	210	22,910	440	11	6,439	30,010
Disposal	–	(4,932)	–	–	–	(4,932)
Write-off	–	(46)	(13)	–	–	(59)
Transfer	–	–	72	8,389	(8,461)	–
Exchange realignment	781	10,815	348	2,113	390	14,447
At 31 December 2020 and 1 January 2021	13,919	181,271	7,118	33,082	6,185	241,575
Additions	16	5,194	472	–	2,310	7,992
Disposal	–	(12,849)	(19)	–	–	(12,868)
Write-off	–	(103)	(119)	–	–	(222)
Transfer	–	–	215	1,284	(1,499)	–
Exchange realignment	381	5,219	101	991	193	6,885
At 31 December 2021	14,316	178,732	7,768	35,357	7,189	243,362
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2020	5,894	44,284	5,381	1,264	–	56,823
Charge for the year	3,234	17,352	370	1,691	–	22,647
Eliminated on disposal	–	(1,614)	–	–	–	(1,614)
Eliminated on write-off	–	(44)	(12)	–	–	(56)
Impairment loss recognised in profit and loss	–	34,483	–	–	–	34,483
Exchange realignment	500	5,657	301	370	–	6,828
At 31 December 2020 and 1 January 2021	9,628	100,118	6,040	3,325	–	119,111
Charge for the year	3,035	14,100	435	2,195	–	19,765
Eliminated on disposal	–	(7,420)	(18)	–	–	(7,438)
Eliminated on write-off	–	(60)	(113)	–	–	(173)
Impairment loss recognised in profit and loss	–	15,028	–	–	–	15,028
Exchange realignment	298	3,254	82	129	–	3,763
At 31 December 2021	12,961	125,020	6,426	5,649	–	150,056
CARRYING VALUES						
At 31 December 2021	1,355	53,712	1,342	29,708	7,189	93,306
At 31 December 2020	4,291	81,153	1,078	29,757	6,185	122,464

15. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	33% or over the lease term, whichever is shorter
Plant and machinery	10% – 33%
Furniture, fixtures and equipment	33%
Broadband infrastructure and network equipment	15 years

In view of the under-performance of the manufacturing segment during the year ended 31 December 2021, the directors of the Company have conducted a review of plant and equipment and right-of-use assets included in the manufacturing segment of the Group, which are treated as a cash-generating unit. The recoverable amount of the cash-generating unit is determined based on value in use calculation with assistance of an independent professional valuer, Valtech Valuation Advisory Limited ("Valtech"), who used cash flow projection based on financial budget approved by the management.

Based on the result of the assessment, impairment loss of approximately HK$15,028,000 has been recognised in respect of plant and equipment during the year ended 31 December 2021. The pre-tax discount rate applied in measuring the amounts of value in use was 15.73%.

During the year ended 31 December 2019, certain machineries could no longer produce semiconductors up to the technical standard required by current market. As a result, these machineries became obsolete. The directors of the Company conducted a review of impairment of these machineries by reference to a valuation performed by independent valuer. An impairment loss of HK$2,011,000 was recognised in profit or loss for the year ended 31 December 2020. The recoverable amount of these machineries was based on fair value less costs of disposal. The fair value measurement of these machineries is categorised within level 2 of the fair value hierarchy. During the year ended 31 December 2021, all these machineries classified as held for sales were disposed of. For the details, please refer to note 38.

Rental income of HK$5,205,000 (2020: HK$4,036,000) relating to the lease of broadband infrastructure and network equipment with carrying amount of HK$29,708,000 (2020: HK$29,757,000) for the year ended 31 December 2021 are included in "Revenue".

16. LEASES

(i) Right-of-use assets

	Buildings *HK$'000*
As at 1 January 2020	4,526
Addition	2,689
Depreciation for the year	(3,376)
Lease modification of lease term	3,220
Impairment of right-of-use assets	(396)
Exchange realignment	324
As at 31 December 2020 and 1 January 2021	6,987
Addition	403
Depreciation for the year	(3,455)
Exchange realignment	134
As at 31 December 2021	4,069

The Group has lease arrangements for factory and office premises. The lease terms are generally ranged from one to six years.

Addition to the right-of-use assets for the year ended 31 December 2021 amounted to HK$403,000 (2020: HK$5,909,000), due to a new lease of factory.

(ii) Lease liabilities

	2021 ***HK$'000***	2020 *HK$'000*
Non-current	**2,480**	4,685
Current	**2,340**	3,110
	4,820	7,795

16. **LEASES** *(Continued)*

(ii) **Lease liabilities** *(Continued)*

Amounts payable under lease liabilities

	2021	2020
	HK$'000	*HK$'000*
Within 1 year	**2,340**	3,110
After 1 year but within 2 years	**1,522**	2,191
After 2 years but within 5 years	**958**	2,494
	4,820	7,795
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,340)**	(3,110)
Amount due for settlement after 12 months	**2,480**	4,685

During the year ended 31 December 2021, the Group entered into a new lease agreement in respect of renting factory and recognised lease liability of HK$403,000 (2020: HK$2,689,000).

In addition, the Group entered into a lease modification agreement in respect of renting office premise and recognised lease liability of HK$3,220,000 (2021: nil) with the incremental borrowing rate of 6.69% at the effective date of the modification on 31 July 2020.

(iii) **Amounts recognised in profit or loss**

	2021	2020
	HK$'000	*HK$'000*
Depreciation expense on right-of-use assets – Buildings	**3,455**	3,376
Impairment loss recognised on right-of-use assets *(note)*	**–**	396
Interest expense on lease liabilities	**260**	319

Note: Details of the impairment loss recognised on right-of-use assets are set out in note 15.

(iv) **Others**

During the year ended 31 December 2021, the total cash outflow for leases amount to HK$3,795,000 (2020: HK$3,647,000).

17. FINANCE LEASE RECEIVABLE

Software of the Group is leased out under finance lease. Interest rate inherent in the lease is fixed at the contract date over the lease terms.

	2021 HK$'000	2020 HK$'000
Non-current	–	477
Current	491	419
	491	896

The lease is denominated in RMB. The Group entered into finance leasing arrangement as a lessor for software to its customer. The term of finance lease entered into is 5 years. This lease contract does not include extension or early termination options.

	2021 HK$'000	2020 HK$'000
Amounts receivable under finance lease		
Within 1 year	526	511
After 1 year but within 2 years	–	511
Undiscounted lease payments and gross investment in lease	526	1,022
Less: unearned finance income	(35)	(126)
Present value of minimum lease payments receivable	491	896

The following table presents the amounts included in profit or loss.

	2021 HK$'000	2020 HK$'000
Finance income on finance lease	94	134

The Group's finance lease arrangements do not include variable payments.

17. FINANCE LEASE RECEIVABLE *(Continued)*

As at 31 December 2021 and 2020, finance lease receivables are secured over the software leased. The Group is not permitted to sell or pledge the collateral in the absence of default by the lessee.

The directors of the Company estimate the loss allowance on finance lease receivable at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivable at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessee operate, the directors of the Company consider that no finance lease receivable is impaired.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivable.

18. INTANGIBLE ASSETS

	Trademark *HK$'000*	Backlog contracts *HK$'000*	Software *HK$'000*	Total *HK$'000*
COST				
At 1 January 2020	2,600	335	2,607	5,542
Exchange realignment	–	84	227	311
At 31 December 2020 and 1 January 2021	2,600	419	2,834	5,853
Disposal	(2,600)	–	–	(2,600)
Write-off	–	–	(1,058)	(1,058)
Exchange realignment	–	12	68	80
At 31 December 2021	–	431	1,844	2,275
ACCUMULATED AMORTISATION				
At 1 January 2020	2,600	267	160	3,027
Provided for the year	–	68	170	238
Exchange realignment	–	84	79	163
At 31 December 2020 and 1 January 2021	2,600	419	409	3,428
Provided for the year	–	–	181	181
Eliminated on disposal	(2,600)	–	–	(2,600)
Exchange realignment	–	12	15	27
At 31 December 2021	–	431	605	1,036
CARRYING VALUES				
At 31 December 2021	–	–	1,239	1,239
At 31 December 2020	–	–	2,425	2,425

18. INTANGIBLE ASSETS *(Continued)*

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Trademark	1.5 years
Software	10 years
Backlog contracts	over the contract terms

19. INVENTORIES

	2021 *HK$'000*	2020 *HK$'000*
Raw materials	**20,418**	16,638
Finished goods	**29,225**	14,630
	49,643	31,268
Less: allowance for impairment of inventories *(note)*	**–**	(3,252)
	49,643	28,016

Note: During the year ended 31 December 2021, inventories of HK$3,300,000 (2020: HK$3,009,000), which were fully impaired in prior years, are written off as those obsolete inventories are no longer suitable for use in production or saleable in the market.

During the year ended 31 December 2020, impairment loss on inventories of HK$1,759,000 (2021: nil) was recognised in the consolidated statement of profit or loss and other comprehensive income. Reversal of impairment loss of HK$5,843,000 (2021: nil) was recognised for the year ended 31 December 2020 as the impaired inventories were sold.

20. TRADE AND OTHER RECEIVABLES

	2021 HK$'000	2020 HK$'000
Receivables at amortised cost comprise:		
Trade receivables	**113,554**	90,332
Less: allowance for impairment of trade receivables	**(8,060)**	(1,965)
	105,494	88,367
Deposits and other receivables	**1,781**	4,064
Receivables for disposal of plant and equipment and non-current assets classified as held for sale	**10,843**	–
Value-added tax recoverable	**10,329**	1,783
Prepayments	**4,059**	3,757
Total trade and other receivables	**132,506**	97,971

During the year ended 31 December 2021, the Group has written off deposits and other receivables of approximately HK$367,000 (2020: nil) as there is no realistic prospect of recovery.

As at 31 December 2021, the gross amount of trade receivables arising from contracts with customers and operating leases amounted to HK$109,116,000 (2020: HK$87,156,000) and HK$4,438,000 (2020: HK$3,176,000) 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.

	2021 HK$'000	2020 HK$'000
0 to 30 days	**50,762**	41,710
31 to 90 days	**25,476**	32,462
91 to 365 days	**23,633**	8,930
Over 365 days	**5,623**	5,265
	105,494	88,367

20. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group recognised lifetime ECL for trade receivables in relation to its manufacturing and trading operations based on internal credit rating for its customers collectively that are not individually significant as follows:

As at 31 December 2021

	Weighted average expected loss rate *%*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Manufacturing and trading			
Debtors with low credit risk	**0.43**	**24,530**	**105**
Debtors with medium credit risk	**1.07**	**27,411**	**293**
Debtors with high credit risk	**70**	**49**	**34**
		51,990	**432**

As at 31 December 2020

	Weighted average expected loss rate *%*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Manufacturing and trading			
Debtors with low credit risk	0.46	27,710	127
Debtors with medium credit risk	1.42	29,566	420
		57,276	547

20. TRADE AND OTHER RECEIVABLES *(Continued)*

The lifetime ECL for trade receivables in relation to its broadband infrastructure and smart domain operations is assessed individually or based on the past due ageing of customers collectively that are not individually significant as follows:

As at 31 December 2021

	Weighted average expected loss rate %	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Broadband infrastructure and smart domain			
Current to 1 month past due	2.69	24,825	668
1 to 3 months past due	8.77	7,729	678
More than 3 months but less than 12 months past due	13.54	19,784	2,679
Over 12 months past due *(note ii)*	30.96	8,144	2,521
		60,482	6,546
Default receivables *(note i)*	100	1,082	1,082
		61,564	7,628

20. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2020

	Weighted average expected loss rate %	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Broadband infrastructure and smart domain			
Current to 1 month past due	0.60	16,734	100
1 to 3 months past due	1.05	4,194	44
More than 3 months but less than 12 months past due	1.46	5,672	83
Over 12 months past due *(note ii)*	2.60	5,405	140
		32,005	367
Default receivables *(note i)*	100	1,051	1,051
		33,056	1,418

Note (i): As at 31 December 2021, debtor who was credit-impaired with gross carrying amount of HK$1,082,000 (2020: HK$1,051,000) was assessed individually.

Note (ii): As at 31 December 2021, debtors who were credit-impaired with gross carrying amount of HK$3,381,000 (2020: nil) were included in the amount of trade receivables aged over 12 months past due, loss allowance of HK$2,376,000 (2020: nil) is recognised for these receivables.

The movement in the allowance for impairment of trade receivables is set out below:

	Lifetime ECL – credit impaired		Lifetime ECL – not credit impaired		Total	
	2021	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	1,051	–	914	2,061	1,965	2,061
Impairment loss (reversal of impairment loss) recognised	2,293	890	3,666	(1,093)	5,959	(203)
Transfer from not credit impaired to credit impaired	49	105	(49)	(105)	–	–
Exchange realignment	65	56	71	51	136	107
At 31 December	3,458	1,051	4,602	914	8,060	1,965

21. CONTRACT ASSETS

	2021 HK$'000	2020 HK$'000
Retention receivables of broadband infrastructure construction services	**1,953**	766
Unbilled revenue of broadband infrastructure construction services *(note)*	**312**	726
	2,265	1,492
Less: allowance for impairment	**(421)**	(5)
Total contract assets	**1,844**	1,487

Note: Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certificate by the customers. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed construction work from the customers.

The Group classifies these contract assets, net of allowance for impairment, under current assets because the Group expects to realise them in its normal operating cycle.

The recovery or settlement for contract assets pursuant to the terms of contracts is as follows:

	2021 HK$'000	2020 HK$'000
Within one year	**1,844**	1,487

The Group measures the loss allowance for contract assets at an amount equal to lifetime ECL. The ECL on contract assets is assessed individually or collectively for customers that are not individually significant using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As at 31 December 2021, the weighted average expected loss rate applied to contract assets was 18.59% (2020: 0.34%).

21. CONTRACT ASSETS *(Continued)*

The movement in the allowance for impairment of contract assets is set out below:

	2021	2020
	HK$'000	*HK$'000*
At 1 January	**5**	6
Impairment loss (reversal of impairment loss) recognised	**410**	(1)
Exchange realignment	**6**	–
At 31 December	**421**	5

22. BANK BALANCES AND CASH

Cash at banks carried interest at floating rates which range from 0.001% to 0.3% (2020: 0.001% to 0.3%) per annum, based on daily bank deposit rates for the years ended 31 December 2021 and 2020.

23. TRADE AND OTHER PAYABLES

	2021	2020
	HK$'000	*HK$'000*
Trade payables	**97,120**	46,131
Payables for acquisition of plant and equipment	**5**	211
Accruals of costs for contract works	**265**	610
Accrued staff costs	**6,548**	4,754
Payable for commission	**1,795**	1,925
Accruals and other payables	**14,450**	10,957
	120,183	64,588

Included in other payables, amount of approximately HK$1,031,000 represented interest payable to loan from an immediate holding company as at 31 December 2021 (2020: HK$380,000).

23. TRADE AND OTHER PAYABLES *(Continued)*

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

	2021	2020
	HK$'000	*HK$'000*
Within 3 months	**62,650**	32,602
4 to 6 months	**14,293**	6,263
7 to 12 months	**15,431**	3,684
Over 1 year	**4,746**	3,582
	97,120	46,131

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

24. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 December 2021 and 2020, the balances are trade nature with various credit periods granted to its related companies on mutually-agreed basis and stipulated in the project contract, as appropriate. All of the related companies are beneficially owned by Mr. Zhang.

The following is an aged analysis of amounts due from related companies, 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.

	2021	2020
	HK$'000	*HK$'000*
0 to 30 days	**2,975**	2,271
31 to 90 days	**1,007**	1,101
91 to 365 days	**3,627**	3,490
Over 365 days	**3,899**	2,300
	11,508	9,162

The Group measures the loss allowance for amounts due from related companies at an amount equal to lifetime ECL. The ECL on amounts due from related companies are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

24. AMOUNTS DUE FROM RELATED COMPANIES *(Continued)*

The Group recognised lifetime ECL for amounts due from related companies based on internal credit rating for its customers collectively that are not individually significant as follows:

As at 31 December 2021

	Weighted average expected loss rate *%*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Debtors with low credit risk	5.04	119	6
Debtors with high credit risk	20.67	14,364	2,969
		14,483	2,975

The movement in the allowance for impairment of amounts due from related companies is set out below:

	2021 *HK$'000*	2020 *HK$'000*
At 1 January	**–**	–
Impairment loss recognised	**2,933**	–
Exchange realignment	**42**	–
At 31 December	**2,975**	–

25. DEFERRED TAXATION

The following is the analysis of the deferred tax assets (liability), after set off certain deferred tax assets against deferred tax liability of the same taxable entity, for financial reporting purposes:

	2021 *HK$'000*	2020 *HK$'000*
Deferred tax assets	**14,264**	14,261
Deferred tax liability	**(313)**	(340)
	13,951	13,921

25. DEFERRED TAXATION *(Continued)*

The following are the major deferred tax assets (liability) recognised and movements thereon during both years:

	Impairment loss on inventories HK$'000	Impairment loss on plant and equipment, right-of-use assets and non-current assets classified as held for sale HK$'000	Impairment loss on trade receivables and contract assets HK$'000	Impairment loss on amounts due from related companies (trade-nature) HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2020	1,514	3,315	263	–	(413)	4,679
(Charge) credit to profit or loss	(1,773)	6,890	(43)	–	93	5,167
Effect on change in tax rate	1,018	2,228	53	–	–	3,299
Exchange realignment	55	724	17	–	(20)	776
At 31 December 2020 and 1 January 2021	814	13,157	290	–	(340)	13,921
(Charge) credit to profit or loss	(826)	(960)	937	440	36	(373)
Exchange realignment	12	372	22	6	(9)	403
At 31 December 2021	–	12,569	1,249	446	(313)	13,951

At the end of the reporting period, the Group has unused tax losses of HK$138,206,000 (2020: HK$91,039,000) available for offset against future profits, out of which HK$68,978,000 (2020: HK$51,531,000) that may be carried forward indefinitely and the remaining tax losses of HK$69,228,000 (2020: HK$39,508,000) will expire within five years from the year in which the respective loss arose. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams.

At the end of the reporting period, the Group has deductible temporary differences of HK$3,147,000 (2020: HK$3,057,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

26. DEFERRED INCOME

	2021 HK$'000	2020 HK$'000
Government grants		
– Non-current	**5,086**	4,925
– Current	**796**	722
	5,882	5,647

As at 31 December 2021, the Group received government grants of approximately HK$1,677,000 (2020: HK$3,984,000) for acquisition of certain machineries which has been treated as deferred income and are amortised to profit or loss over the useful lives of the related machineries. This policy has resulted in a credit to profit or loss in the current period of approximately HK$870,000 (2020: HK$379,000). As at 31 December 2021, balances of approximately HK$5,882,000 (2020: HK$5,647,000) remain to be amortised in the future financial years. During the year ended 31 December 2021, the Group has disposed of certain machineries under the government grant scheme, therefore, approximately HK$739,000 (2020: HK$377,000) of deferred income has been fully recognised in other income.

27. LOAN FROM AN IMMEDIATE HOLDING COMPANY

	2021 HK$'000	2020 HK$'000
With one year	**–**	37,331
After one year but within two years	**23,051**	–
After two years but within five years	**2,049**	1,941
	25,100	39,272
Amounts shown under current liabilities	**–**	37,331
Amounts shown under non-current liabilities	**25,100**	1,941
	25,100	39,272

As at 31 December 2020, the amount represented a facility loan and an interest-free loan from an immediate holding company with the principal loan amount of HK$37,920,000 and HK$2,500,000 respectively. The facility loan is unsecured, bearing interest at a fixed rate of 2% per annum and is repayable in 2021. The interest-free loan is unsecured, interest-free and is repayable in 2025. The effective interest rate of the facility loan and an interest-free loan is 5.25% and 5.58% per annum.

27. **LOAN FROM AN IMMEDIATE HOLDING COMPANY** *(Continued)*

The directors of the Company assessed the fair value of the loans, taken into account an effective interest rate of 5.25% and 5.58% per annum, and recognised an initial fair value adjustment of approximately HK$3,797,000 to the outstanding carrying amount of the loan from an immediate holding company and capital reserve as deemed contribution from an immediate holding company of approximately HK$3,797,000.

During the year ended 31 December 2021, the Group repaid a portion of the above mentioned facility loan of principal amount of HK$16,000,000 (2020: HK$13,630,000) which led to the loss on early repayment of approximately HK$761,000 (2020: HK$410,000) recognised in profit and loss.

During the year ended 31 December 2021, the Group extended the facility loan from an immediate holding company with the principal loan amount of HK$29,920,000 and obtained new loan with principal amount of HK$3,200,000. The facility loan is unsecured, bearing interest at a fixed rate of 2% per annum and is repayable in 2023. The effective interest rate of the facility loan is 7.92% per annum.

The directors of the Company assessed the fair value of the facility loan, taken into account an effective interest rate of 7.92% per annum, and recognised an initial fair value adjustment of approximately HK$3,516,000 to the outstanding carrying amount of the loan from an immediate holding company and capital reserve as deemed contribution from an immediate holding company of approximately HK$3,516,000.

As at the end of the reporting period, the Group has the following undrawn facilities at interest rate of 2% per annum for 24 months granted by an immediate holding company:

	2021 ***HK$'000***	2020 *HK$'000*
Fixed rate expiring:		
– Within one year	**–**	80
– Beyond one year	**12,880**	–

28. LOANS FROM RELATED COMPANIES

	2021 HK$'000	2020 HK$'000
After one year but within two years	**35,241**	–
After two years but within five years	**19,766**	66,060
	55,007	66,060

As at 31 December 2021 and 2020, the amount represented loans from Tian Li (Hong Kong) Tou Zi Company Limited ("Tian Li") and 廣州普及房地產代理有限公司, with the principal loan amount of HK$24,000,000 and RMB46,146,000 (equivalent to approximately HK$56,441,000) respectively.

For the loan from Tian Li, the director of Tian Li is a close family member of Mr. Zhang, the controlling shareholder of the Group, with the principal loan amount of HK$24,000,000, the loan is unsecured, interest-free and is repayable in 2025.

For the loan from 廣州普及房地產代理有限公司, which is beneficially owned by Mr. Zhang, the controlling shareholder of the Group, with the principal loan amount of RMB46,146,000 (equivalent to approximately HK$56,441,000), the loan is unsecured, interest-free and is repayable in 2023.

At the drawdown date of the loans, the directors of the Company assessed the fair value of the loans, taken into account an effective interest rate of 5.57% and 5.17% per annum, and recognised an initial fair value adjustment of approximately HK$4,621,000 and HK$7,668,000 to the outstanding carrying amounts of the loans from related companies and capital reserve as deemed contribution from related parties.

During the year ended 31 December 2021, 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 HK$17,378,000 (2020: nil) which led to the loss on early repayment of approximately HK$1,724,000 (2020: nil) recognised in profit and loss.

29. SHARE CAPITAL AND RESERVES

(a) Share capital

	Number of shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 31 December 2021	2,000,000	20,000
Issued and fully paid:		
At 1 January 2020, 31 December 2020 and 31 December 2021	800,000	8,000

(b) Reserves

(i) PRC statutory reserve

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of Dongguan Jia Jun Electronic Technology Company Limited ("Dongguan Jia Jun"), Guangzhou Weaving and Hunan Huama Construction Engineering Co., Ltd. ("Hunan Huama"). Appropriations to the reserves were determined by the respective board of directors of Dongguan Jia Jun, Guangzhou Weaving and Hunan Huama and can be used to offset accumulated losses and increase capital upon approval from the relevant government authorities.

(ii) Capital reserve

Capital reserve represents (i) the difference between the aggregate amount of issued and fully paid share capital of the subsidiaries acquired by the Company and the nominal amount of the shares issued by the Company as consideration; (ii) additional contributions made by the prior shareholders of the Company's subsidiaries; (iii) difference between the carrying amounts of non-controlling interests acquired and the consideration paid for acquisition of addition interest in subsidiaries; and (iv) deemed contribution from the loans from an immediate holding company and related companies.

(iii) Merger reserve

Merger reserve arising from acquisition of the subsidiaries under common control being the difference between the consideration paid for the acquisition and the carrying amount of the net assets of the subsidiaries at the date when the Group and the acquired subsidiaries become under common control.

30. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Plant and equipment		70	84
Investments in subsidiaries		80,986	80,986
		81,056	81,070
Current assets			
Amounts due from subsidiaries	*(a)*	71,662	79,634
Prepayments and other receivables		278	268
Bank balances and cash		125	13,224
		72,065	93,126
Current liabilities			
Other payables		3,256	1,365
Amount due to a subsidiary	*(a)*	827	835
Loan from an immediate holding company	*27*	–	37,331
		4,083	39,531
Net current assets		67,982	53,595
Total assets less current liabilities		149,038	134,665
Non-current liabilities			
Loan from an immediate holding company	*27*	25,100	1,941
Loan from a related company	*28*	19,766	18,724
		44,866	20,665
		104,172	114,000
Capital and reserves			
Share capital	*29*	8,000	8,000
Reserves	*(b)*	96,172	106,000
		104,172	114,000

30. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

(b) Movements in the Company's reserves

	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note)*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2020	104,098	57,170	(47,980)	113,288
Loss and total comprehensive expense for the year	–	–	(12,932)	(12,932)
Deemed contribution from an immediate holding company and a related company *(note 27 and 28)*	–	5,644	–	5,644
At 31 December 2020 and 1 January 2021	104,098	62,814	(60,912)	106,000
Loss and total comprehensive expense for the year	–	–	(13,344)	(13,344)
Deemed contribution from an immediate holding company *(note 27)*	–	3,516	–	3,516
At 31 December 2021	104,098	66,330	(74,256)	96,172

Note: Capital reserve represents (i) the difference between the nominal value of the shares issued by the Company for the acquisition of equity interests of its subsidiaries and the net assets value of its subsidiaries at the date of acquisition; and (ii) deemed contribution from the loan from immediate holding company and a related company.

31. RETIREMENT BENEFIT SCHEMES

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan and the assets of the MPF Scheme are held separately from those of the Group in funds administered by independent trustee. Under the MPF Scheme, the Group and its employees makes monthly contributions to the MPF Scheme at 5% of the employee's earnings capped at HK$1,500 per month to the MPF Scheme in both years.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of approximately HK$6,070,000 (2020: HK$2,940,000) represent contributions payable to these schemes by the Group during the year ended 31 December 2021. Contributions to the scheme vest immediately.

32. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 23 September 2015 for the primary purpose of rewarding the directors of the Company and eligible employees, advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group whom board considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company (the "Shares") in issue at any point in time, without prior approval from the Company's shareholders. Besides, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under any Schemes of our Company must not exceed such number of Shares as shall represent 30% of the total number of Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 (or such other amount as shall be permissible under the Main Board Listing Rules from time to time) must be approved in advance by the shareholders.

Options may be exercised in accordance with the terms of the Scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the offer date. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Shares as stated in Stock Exchange's daily quotations sheets on the date on which the option is offered to a participant ("Offer Date"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.

At 31 December 2021 and 2020, no options had been granted or remained outstanding under the Scheme.

33. CAPITAL COMMITMENT

At the end of the reporting period, the Group has the following capital commitment in respect of the acquisition of plant and equipment:

	2021 *HK$'000*	2020 *HK$'000*
Contracted for but not provided in the consolidated financial statements		
– Plant and equipment	**558**	994
– Broadband infrastructure and network equipment	**7,979**	10,030
	8,537	11,024

34. OPERATING LEASE ARRANGEMENT

The Group as lessor

The Group leases out broadband infrastructure and network equipment under operating leases. The leases typically run for an initial period of one to nine years. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes variable lease payments.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2021 *HK$'000*	2020 *HK$'000*
Within one year	**3,232**	3,441
After one year but within two years	**2,432**	1,483
After two years but within three years	**1,433**	819
After three years but within five years	**841**	557
	7,938	6,300

35. RELATED PARTY DISCLOSURES

Other than as disclosed elsewhere in these consolidated financial statements, during the year, the Group has the following transactions with its related parties.

(a) Related parties' transactions

Saved as elsewhere disclosed in these consolidated financial statement, during the year, the Group entered into the following transactions with related parties:

	2021 *HK$'000*	2020 *HK$'000*
Revenue from broadband infrastructure construction services		
遵義實地房地產開發有限公司*	**5,647**	5,307
天津金河灣置業有限公司*	**285**	702
廣東譽豐地產發展有限公司*	**155**	380
廣州豐實房地產開發有限公司*	**67**	3
惠州市現代城房地產發展有限公司*	**3,207**	2,244
武漢平安中信置業有限公司*	**357**	456
三亞巨源旅業開發有限公司*	**164**	88
深圳富茅房地產開發有限公司*	**–**	113
實地地產集團有限公司*	**41**	75
廣州普聚商貿有限公司*	**–**	2
太原和泰盛瑞置業有限公司*	**116**	–
重慶實地房地產開發有限公司*	**2,389**	–
廣州哈奇智能科技有限公司	**195**	105
廣東實地物業管理有限公司	**64**	–
Guangzhou R&F Properties Co., Ltd. and its subsidiaries, joint ventures and associates ("Guangzhou R&F Group")	**38,328**	29,592
Service costs charged by		
廣州天力物業發展有限公司 ("廣州天力")	**6,680**	4,330
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")	**39**	243
廣東實地物業管理有限公司	**41**	–

* The related party transactions also constituted continuing connected transactions which are subject to annual review and relevant requirements under Chapter 14A of the Listing Rules.

35. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related parties' balances

	2021 *HK$'000*	2020 *HK$'000*
Amounts due from related companies (trade-nature)		
遵義實地房地產開發有限公司	**6,554**	6,252
天津金河灣置業有限公司	**250**	413
無錫實地房地產開發有限公司	**–**	150
廣東譽豐地產發展有限公司	**448**	382
廣州豐實房地產開發有限公司	**142**	127
惠州市現代城房地產發展有限公司	**2,530**	1,445
重慶實地房地產開發有限公司	**904**	–
武漢平安中信置業有限公司	**275**	113
深圳富茅房地產開發有限公司	**15**	130
實地地產集團有限公司	**10**	27
廣州哈奇智能科技有限公司	**154**	123
三亞巨源旅業開發有限公司	**119**	–
太原和泰盛瑞置業有限公司	**105**	–
廣東實地物業管理有限公司蘿崗分公司	**2**	–
	11,508	9,162
Balances with Guangzhou R&F Group		
– Included in trade receivables	**22,689**	12,834
– Included in contract assets	**850**	1,419
Balances with 廣州天力		
– Included in prepayments	**1,133**	63
– Included in trade payables	**2,048**	586
– Included in accrual	**5,761**	3,357
Balances with 廣州富力鼎盛置業		
– Included in trade payables	**12**	30
Balances with 廣東實地物業管理有限公司		
– Included in prepayments	**52**	–
– Included in trade payables	**31**	–

35. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related parties' balances *(Continued)*

The Guangzhou R&F Group, 廣州天力 and 廣州富力鼎盛置業 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.

During the year ended 31 December 2020, the Group was granted the right to use two trademarks registered by a company jointly controlled by Mr. Chow Hin Keong and an independent third party at nil consideration. Mr. Chow Hin Keong is a director of the principal operating subsidiaries of the Group.

(c) Compensation of key management personnel

The directors of the Company considered that they are the only key management personnel of the Group for the years ended 31 December 2021 and 2020 and their emoluments are disclosed in note 14.

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

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place/country of incorporation/ registration/ operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
				2021	2020	
Directly held						
Top Dynamic International (BVI) Ltd	BVI	Ordinary share	USD1,000	**100%**	100%	Investment holding
Tech Elite Investments Limited	BVI	Ordinary share	USD1	**100%**	100%	Investment holding
Brainhole Technology Investments Limited *(Note (i))*	Hong Kong	Ordinary share	HK$26,600,000	**100%**	100%	Investment holding
Brainhole Technology Industrial Development Holdings Limited #	BVI	Ordinary share	US$1	**100%**	100%	Investment holding
Indirectly held						
Top Dynamic (BVI) Limited	BVI	Ordinary share	USD100	**100%**	100%	Investment holding
Top Dynamic Electronics Limited	Hong Kong	Ordinary share	HK$1	**100%**	100%	Trademark holding
Top Empire Management Limited	Hong Kong	Ordinary share	HK$1	**100%**	100%	Provision of management service
Top Dynamic Enterprises Limited	Hong Kong	Ordinary share	HK$1	**100%**	100%	Trading of electronic and electrical parts and components
Dongguan Jia Jun *(Notes (ii) and (iii))*	PRC	Registered capital	USD12,000,000	**100%**	100%	Manufacturing and trading of electronic and electrical parts and components

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
				2021	2020	
Guangzhou Weaving *(Notes (ii), (iii) and (iv))*	PRC	Registered capital	RMB34,363,336	**100%**	100%	Broadband infrastructure construction and the provision of integrated solution for smart domain (including smart home, smart campus and smart communities)
Hunan Huama *(Notes (ii) and (iii))*	PRC	Registered capital	RMB2,000,000	**100%**	100%	Broadband infrastructure construction and the provision of integrated solution for smart domain (including smart home, smart campus and smart communities)
Brainhole Technology Industrial Development Limited#	Hong Kong	Ordinary share	HK$10,000	**100%**	100%	Inactive
Guangzhou Brainhole Weaving Communications Telecommunications Technology Limited ("Guangzhou Brainhole Weaving ") # *(Notes (ii) and (iii))*	PRC	Registered capital	US$3,310,000	**100%**	100%	Investment holding

Incorporated during the year ended 31 December 2020.

Notes:

(i) During the year ended 31 December 2020, share capital of HK$26,590,000 is injected by the Company. As a result, 99.96% of the shares is held by the Company while the remaining 0.04% is held by a wholly-owned subsidiary of the Company, Tech Elite Investments Limited.

(ii) Dongguan Jia Jun, Guangzhou Weaving, Hunan Huama and Guangzhou Brainhole Weaving are wholly-owned foreign enterprise established in the PRC.

(iii) The English translation of the company name is for reference only. The official name of these companies are 東莞市佳駿電子科技有限公司, 廣州織網通訊科技有限公司, 湖南華馬建設工程有限公司 and 廣州腦洞織網通訊科技有限公司 respectively.

(iv) During the year ended 31 December 2020, RMB22,999,000 (equivalent to approximately HK$25,663,000) share capital is injected by a wholly-owned subsidiary of the Group, Guangzhou Brainhole Weaving.

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes				
	1 January 2021 *HK$000*	Financing cash flows *HK$000*	New lease arrangements *HK$000*	Finance cost incurred *HK$000*	Recognition of deemed contribution *HK$000*	Exchange realignment *HK$000*	31 December 2021 *HK$000*
Lease liabilities	7,795	(3,795)	403	260	–	157	4,820
Loan from an immediate holding company	39,272	(12,800)	–	2,144	(3,516)	–	25,100
Interest payable	380	–	–	651	–	–	1,031
Loans from related companies	66,060	(17,378)	–	5,124	–	1,201	55,007
	113,507	(33,973)	403	8,179	(3,516)	1,358	85,958

			Non-cash changes				
	1 January 2020 *HK$000*	Financing cash flows *HK$000*	New lease arrangements/ lease modification *HK$000*	Finance cost incurred *HK$000*	Recognition of deemed contribution *HK$000*	Exchange realignment *HK$000*	31 December 2020 *HK$000*
Lease liabilities	4,846	(3,647)	5,909	319	–	368	7,795
Loan from an immediate holding company	34,776	2,870	–	1,577	(1,023)	1,072	39,272
Interest payable	–	(473)	–	853	–	–	380
Loans from related companies	–	75,923	–	606	(12,289)	1,820	66,060
	39,622	74,673	5,909	3,355	(13,312)	3,260	113,507

38. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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

During the year ended 31 December 2020, the directors of the Company conducted a review of impairment of these machineries. The valuation of non-current assets classified as held for sale was performed by Valtech, an independent qualified professional valuer not connected with the Group. Valtech has appropriate qualifications and has recent experience in the valuation of similar machineries in the relevant industries. An impairment loss of HK$2,011,000 (2021: nil) was recognised in profit or loss for the year ended 31 December 2020 based on their fair value less costs of disposal. The fair value measurement of these machineries is categorised with level 2 of the fair value hierarchy.

During the year ended 31 December 2021, the abovementioned machineries with the carrying amount of approximately HK$7,458,000 (2020: HK$6,426,000) were disposed of and resulting a net loss on disposal of approximately HK$766,000 (2020: HK$759,000) and recognised in profit and loss. As at 31 December 2021, all non-current assets classified as held for sale were fully disposed of.

Financial Summary of the Group

	For the year ended 31 December				
	2017 *HK$'000*	2018 *HK$'000* (Restated)	2019 *HK$'000*	2020 *HK$'000*	**2021** ***HK$'000***
Results					
Revenue	305,513	388,696	346,673	261,809	**321,570**
Profit (loss) before tax	57,789	41,992	(54,608)	(67,113)	**(51,198)**
Total comprehensive income (expense) for the year	55,188	27,962	(54,174)	(51,554)	**(47,830)**

	As at 31 December				
	2017 *HK$'000*	2018 *HK$'000* (Restated)	2019 *HK$'000*	2020 *HK$'000*	**2021** ***HK$'000***
Assets and Liabilities					
Total assets	317,258	405,082	410,038	370,340	**353,629**
Total liabilities	67,476	77,023	185,158	183,702	**211,305**
Total equity	249,782	328,059	224,880	186,638	**142,324**

Note:

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2018 have been restated to include the operating results of Guangzhou Weaving Group as if the acquisition of Guangzhou Weaving Group had been completed on 27 April 2018, being the earliest date when the combining entities or businesses first came under the control of Mr. Zhang. As Guangzhou Weaving and the Company are ultimately controlled by Mr. Zhang, the acquisition of Guangzhou Weaving was regarded as business combination under common control.

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Definitions

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

"Articles"	the articles of association of the Company adopted on 23 September 2015
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company"	Brainhole Technology Limited 脑洞科技有限公司, a company incorporated as an exempted company with limited liability in the Cayman Islands
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Guangzhou Weaving"	Guangzhou Weaving Communications Telecommunications Technology Limited (廣州織網通訊科技有限公司*), a company established in the PRC with limited liability
"Guangzhou Weaving Group"	Guangzhou Weaving and its subsidiary
"HK$" or "HK dollar(s)" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Korea"	the Republic of Korea

Definitions

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and/or otherwise modified from time to time as the context may require
"Main Board"	the Main Board of the Stock Exchange
"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"	the year ended 31 December 2021
"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
"Scheme"	the share option scheme adopted by the Company on 23 September 2015
"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
"%"	per cent.

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