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SYNERTONE

協同通信集團有限公司

Synertone Communication Corporation

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1613)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021**

The board (the “**Board**”) of directors (the “**Directors**”) of Synertone Communication Corporation (the “**Company**”, together with its subsidiaries, the “**Group**”) announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2021 together with the comparative unaudited figures for the corresponding period in 2020. These interim financial results have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2021

		For the six months ended	
		30 September	
		2021	2020
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	39,950	26,367
Cost of sales		<u>(28,403)</u>	<u>(17,741)</u>
Gross profit		11,547	8,626
Other income	5	5,152	2,656
Other losses	5	(14)	(24)
Selling and distribution expenses		(2,872)	(1,621)
Administrative and other operating expenses		(17,812)	(18,040)
Research and development expenditure		(1,975)	(2,153)
(Allowance)/reversal of expected credit loss, net		<u>(1,429)</u>	<u>3,061</u>
Loss from operations		(7,403)	(7,495)
Finance costs	6(a)	(2,014)	(1,911)
Share of results of associates		<u>(538)</u>	<u>(72)</u>
Loss before tax	6	(9,955)	(9,478)
Income tax (expense)/credit	7	<u>(9)</u>	<u>966</u>
Loss for the period		<u><u>(9,964)</u></u>	<u><u>(8,512)</u></u>

	For the six months ended	
	30 September	
	2021	2020
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period attributable to:		
Owners of the Company	(8,867)	(8,110)
Non-controlling interests	<u>(1,097)</u>	<u>(402)</u>
	<u><u>(9,964)</u></u>	<u><u>(8,512)</u></u>
	<i>HK cent</i>	<i>HK cent</i>
Loss per share	9	
– Basic	<u><u>(0.75)</u></u>	<u><u>(0.79)</u></u>
– Diluted	<u><u>(0.75)</u></u>	<u><u>(0.79)</u></u>

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

For the six months ended 30 September 2021

	For the six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(9,964)	(8,512)
Other comprehensive income for the period		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of financial statements of foreign operations	7	61
Other comprehensive income for the period, net of tax	7	61
Total comprehensive expense for the period	(9,957)	(8,451)
Total comprehensive expense attributable to:		
Owners of the Company	(8,860)	(8,049)
Non-controlling interests	(1,097)	(402)
	(9,957)	(8,451)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

		As at 30 September 2021	As at 31 March 2021
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		44,533	37,401
Right-of-use assets		13,567	14,275
Intangible assets		–	32
Goodwill		51,301	51,301
Interests in associates	10	54,962	55,500
Deposits and prepayments	11	1,312	1,087
		165,675	159,596
Current assets			
Inventories		44,959	50,217
Trade and other receivables	11	116,324	95,716
Amount due from an associate		5,439	–
Cash and cash equivalents		13,924	4,185
		180,646	150,118
Current liabilities			
Trade and other payables	12	47,169	41,729
Contract liabilities		31,918	29,625
Amount due to an associate		–	337
Bank borrowings		69,001	69,001
Lease liabilities		3,561	3,406
		151,649	144,098
Net current assets		28,997	6,020
Total assets less current liabilities		194,672	165,616

	As at 30 September 2021 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Non-current liabilities		
Lease liabilities	<u>2,099</u>	<u>2,974</u>
	<u>2,099</u>	<u>2,974</u>
Net assets	<u>192,573</u>	<u>162,642</u>
EQUITY		
Share capital	298,591	258,091
Reserves	<u>(111,345)</u>	<u>(101,873)</u>
Equity attributable to owners of the Company	187,246	156,218
Non-controlling interests	<u>5,327</u>	<u>6,424</u>
Total equity	<u>192,573</u>	<u>162,642</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

1. GENERAL

The Company was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company's registered office and the principal place of business in Hong Kong are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Room 1012, 10/F, Tsim Sha Tsui Centre, 66 Mody Road, Kowloon, Hong Kong respectively.

On 18 April 2012, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Group is principally engaged in (i) design, development and sales of automation control systems and (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

The principal operations of the Group are conducted in the People's Republic of China ("**China**" or the "**PRC**"). The condensed consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the functional currency of the Company, as the Directors consider that presenting the condensed consolidated financial statements in HK\$ is preferable when controlling and monitoring the performance and financial position of the Group.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies used in the condensed consolidated financial statements for the six months ended 30 September 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2021.

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2021 for the preparation of the Group's condensed consolidated financial statements. The application of the new and amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior interim periods and/or on the disclosures set out in the condensed consolidated financial statements.

The Group has not early applied the new and amendments to HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines.

On adopting HKFRS 8, *Operating Segments*, and in a manner consistent with the way in which information is reported internally to the chief executive officer of the Company, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

Building Intelligence: Provision of (i) video intercom system and security alarm solutions for residential complexes; and (ii) smart home automation systems for new and existing households.

Control System: Provision of (i) automation hardware and software products, information systems platforms, as well as (ii) the industrial and monitoring and scheduling management system solutions for municipal utilities industry.

For the purposes of assessing segment performance and allocating resources among segments, the Group's chief executive officer monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible, intangible assets and current assets with the exception of corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables and contract liabilities attributable to the activities of the individual segments, bank borrowings and lease liabilities managed directly by the segments with the exception of corporate liabilities which are unallocated to an individual reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment results is adjusted earnings or loss before interest and taxes (“**Adjusted EBIT**”). To arrive at the Adjusted EBIT, the Group's earnings or loss are further adjusted for interest income, impairment loss of intangible assets, goodwill and interests in associates, share of results of associates and items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Segment revenue and results

	For the six months ended 30 September 2021		
	Building intelligence <i>HK\$'000</i> (Unaudited)	Control system <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from external customers	13,565	26,385	39,950
Inter-segment revenue	<u>1,683</u>	<u>1,279</u>	<u>2,962</u>
Reportable segment revenue	<u><u>15,248</u></u>	<u><u>27,664</u></u>	<u><u>42,912</u></u>
Reportable segment profit/(loss) (Adjusted EBIT)	(5,450)	3,145	(2,305)
Interest income			364
Finance costs			(2,014)
Share of results of associates			(538)
Unallocated corporate income and expenses, net			<u>(5,462)</u>
Consolidated loss before tax			<u><u>(9,955)</u></u>
	For the six months ended 30 September 2020		
	Building intelligence <i>HK\$'000</i> (Unaudited)	Control system <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from external customers	11,384	14,983	26,367
Inter-segment revenue	<u>1,413</u>	<u>772</u>	<u>2,185</u>
Reportable segment revenue	<u><u>12,797</u></u>	<u><u>15,755</u></u>	<u><u>28,552</u></u>
Reportable segment loss (Adjusted EBIT)	(2,459)	(1,829)	(4,288)
Interest income			368
Finance costs			(1,911)
Share of results of associates			(72)
Unallocated corporate income and expenses, net			<u>(3,575)</u>
Consolidated loss before tax			<u><u>(9,478)</u></u>

Segment assets and liabilities

	Building intelligence		Control system		Total	
	30 September 2021 <i>HK\$'000</i> (Unaudited)	31 March 2021 <i>HK\$'000</i> (Audited)	30 September 2021 <i>HK\$'000</i> (Unaudited)	31 March 2021 <i>HK\$'000</i> (Audited)	30 September 2021 <i>HK\$'000</i> (Unaudited)	31 March 2021 <i>HK\$'000</i> (Audited)
Assets						
Reportable segment assets	117,908	118,414	93,641	87,943	211,549	206,357
Unallocated corporate assets					<u>134,772</u>	<u>103,357</u>
Consolidated total assets					<u><u>346,321</u></u>	<u><u>309,714</u></u>
Liabilities						
Reportable segment liabilities	120,646	113,440	20,261	18,103	140,907	131,543
Unallocated corporate liabilities					<u>12,841</u>	<u>15,529</u>
Consolidated total liabilities					<u><u>153,748</u></u>	<u><u>147,072</u></u>

4. REVENUE

Disaggregation of the Group's revenue from contracts with customers by major products is as follows:

	For the six months ended 30 September	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Building intelligence	13,565	11,384
Control system	<u>26,385</u>	<u>14,983</u>
	<u><u>39,950</u></u>	<u><u>26,367</u></u>

Revenue from sales of products is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Disaggregation of the Group's revenue from contracts with customers by geographic markets is as follows:

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC	39,895	25,789
Overseas	<u>55</u>	<u>578</u>
	<u>39,950</u>	<u>26,367</u>

5. OTHER INCOME AND OTHER LOSSES

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income		
Interest income on bank deposits (<i>note a</i>)	12	38
Interest income on loan receivables (<i>note a</i>)	352	330
Net equipment rental and maintenance service income (<i>note b</i>)	921	–
Government grants (<i>note c</i>)	547	568
Value-added taxes refund (<i>note d</i>)	1,476	312
Sundry income	<u>1,844</u>	<u>1,408</u>
	<u>5,152</u>	<u>2,656</u>
Other losses		
Net exchange loss	<u>(14)</u>	<u>(24)</u>
	<u>(14)</u>	<u>(24)</u>
	<u>5,138</u>	<u>2,632</u>

Notes:

- (a) Interest income from bank deposits and loan receivables represents the total interest income on financial assets not at fair value through profit or loss.
- (b) The balance mainly represents the income generated from the rental of and maintenance services provided by the Group in relation to computer equipment and machines located in Hong Kong, net of related direct attributable expenses incurred.
- (c) These government grants mainly represent unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to “hi-tech enterprise” and subsidising for the adverse impact due to COVID-19 pandemic.
- (d) Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

6. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

(a) Finance costs

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on bank and other borrowings	1,861	1,748
Finance charges on lease liabilities	153	163
	<u>2,014</u>	<u>1,911</u>

(b) Staff costs (including Directors' emoluments)

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	8,001	7,522
Contributions to defined contribution retirement plans	750	169
	<u>8,751</u>	<u>7,691</u>

As stipulated by the relevant rules and regulations in the PRC, the PRC subsidiaries of Group are required to contribute a state-sponsored retirement plan, which is a defined contribution pension schemes, for all of their employees at a certain percentage of the employee's basic salary. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

Save for the above, the Group has no other obligation for payment of retirement benefits beyond the contributions.

(c) **Other items**

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expenses	27,720	17,152
Amortisation of intangible assets	–	3,446
Depreciation of property, plant and equipment	2,338	1,723
Depreciation of right-of-use assets	1,853	1,517
	<u>1,853</u>	<u>1,517</u>

7. INCOME TAX (EXPENSE)/CREDIT

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT") (note d)	(9)	–
Deferred tax		
Reversal of temporary differences	–	966
Income tax (expense)/credit	<u>(9)</u>	<u>966</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.
- (b) Pursuant to the rules and regulations of the British Virgin Islands (“**BVI**”), the BVI subsidiaries of the Group are not subject to any income tax in the BVI.
- (c) 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 2019 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No provision for taxation in Hong Kong has been made as the Group has no assessed profit on both current and prior periods.
- (d) The PRC subsidiaries of the Group are subject to PRC EIT at a rate of 25% for both current and prior periods under the Law of the PRC on EIT and Implementation Regulation of the EIT Law.
- (e) Under the EIT Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double taxation arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% upon government approval if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.
- (f) Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

During the six months ended 30 September 2021, no dividend has been paid or proposed by the Company, nor has any dividend been proposed since the end of the reporting period (six months ended 30 September 2020: Nil).

9. LOSS PER SHARE

(a) *Basic loss per share*

The calculation of the basic loss per share is based on the loss attributable to owners of the Company of HK\$8,867,000 (six months ended 30 September 2020: HK\$8,110,000) and the weighted average number of 1,182,855,000 (six months ended 30 September 2020: 1,032,363,000) ordinary shares in issue during the period.

(b) *Diluted loss per share*

The calculation of the diluted loss per share is based on the following:

	For the six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company for the purpose of diluted loss per share	<u>(8,867)</u>	<u>(8,110)</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,182,855</u>	<u>1,032,363</u>

10. INTERESTS IN ASSOCIATES

During the six months ended 30 September 2020, the Company, as purchaser, entered into a sale and purchase agreement on 5 June 2020 with Wylie Wei Ji Chak, as vendor, pursuant to which the Company agreed to acquire from Wylie Wei Ji Chak 20% equity interests in Iogo Workshop Investment Limited (“**Iogo Workshop**”) at a total consideration of HK\$56 million. Iogo Workshop, together with its subsidiaries as the “**Iogo Workshop Group**”, is principally engaged in the leasing and renting of charging stations for mobile devices and extended value-added services. The acquisition of 20% equity interests in Iogo Workshop was completed on 19 June 2020 and thereafter, Iogo Workshop, together with its subsidiaries, became associates of the Company.

The interests in associates are accounted for using equity method in the condensed consolidated financial statements as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Cost of investment in associates	56,000	56,000
Share of post-acquisition loss, net of dividends received	(1,449)	(876)
Exchange adjustments	411	376
	54,962	55,500

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Trade receivables (<i>notes a, b</i>)	56,176	53,027
Less: Loss allowance (<i>note c</i>)	(15,266)	(14,224)
	40,910	38,803
Bill receivables	1,512	1,941
Loan receivables (<i>note d</i>)	21,944	21,040
Other receivables (<i>note e</i>)	43,772	25,997
Prepaid value-added and other taxes	24	28
Deposits and prepayments	11,071	10,027
Less: Loss allowance	(1,597)	(1,033)
	76,726	58,000
	117,636	96,803

Reconciliation to the condensed consolidated statement of financial position:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Non-current	1,312	1,087
Current	<u>116,324</u>	<u>95,716</u>
	<u>117,636</u>	<u>96,803</u>

Notes:

- (a) For the six months ended 30 September 2021, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (31 March 2021: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2021: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.
- (b) The following is an aged analysis of trade receivables, presented based on invoice date:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
0-60 days	5,541	2,030
61-90 days	874	2,220
91-180 days	6,685	7,586
181-365 days	4,882	2,322
Over 365 days	<u>38,194</u>	<u>38,869</u>
	56,176	53,027
Less: Loss allowance	<u>(15,266)</u>	<u>(14,224)</u>
	<u>40,910</u>	<u>38,803</u>

- (c) The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses (“ECLs”), which is calculated using a provision matrix. As the Group’s historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group’s different customer bases.

The following table provides information about the Group’s exposure to credit risk and ECLs for trade receivables as at 30 September 2021:

	Average loss rate		Gross carrying amount		Loss allowance	
	30 September 2021 %	31 March 2021 %	30 September 2021 HK\$'000	31 March 2021 HK\$'000	30 September 2021 HK\$'000	31 March 2021 HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Individual assessment	100.00%	100.00%	5,047	4,408	5,047	4,408
Collective assessment						
0-60 days	10.53%	10.53%	9,757	9,611	1,027	1,012
61-90 days	15.20%	15.20%	3,343	2,225	508	338
91-180 days	16.95%	16.95%	1,220	1,385	207	235
181-365 days	20.21%	20.21%	3,662	937	740	189
Over 365 days	23.34%	23.34%	33,147	34,461	7,737	8,042
			56,176	53,027	15,266	14,224

For long overdue trade receivables, the Group regularly reviews the specific circumstances of each major customer to determine if any follow-up action has to be taken. An extension of credit period may be granted by the Group to customers with long business relationship and established reputation; customers which are distributors that have difficulty in receiving payments from final customers; customers which are government-related entities that are subject to strictly regulated government annual budgeting process and payment approval procedures; and customers for which a repayment plan has been arranged.

For the purpose of assessment of ECLs, expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

- (d) Loan receivables represent amounts advanced to independent third parties and are unsecured, interest bearing ranging from 5% to 20% per annum (31 March 2021: 6% to 8% per annum) and recoverable within one year.
- (e) Amount mainly represents the outstanding receivable balance of approximately HK\$19,001,000 (31 March 2021: HK\$19,583,000) arising from one-off respirator masks trading transaction to an independent third party entered into by the Group in the prior period.

12. TRADE AND OTHER PAYABLES

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Trade payables	10,595	8,176
Accrued salaries	1,209	1,087
Accrued expenses and other payables (<i>note</i>)	<u>34,896</u>	<u>32,116</u>
Financial liabilities measured at amortised cost	46,700	41,379
Other tax payables	<u>469</u>	<u>350</u>
	<u>47,169</u>	<u>41,729</u>

Note:

Amount includes the outstanding payable balance of approximately HK\$6,525,000 (31 March 2021: HK\$6,525,000) arising from one-off respirator masks trading transaction entered into by the Group in the prior period.

The following aged analysis of trade payables presented based on invoice date:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
0–60 days	5,553	2,434
61–90 days	44	142
91–180 days	390	604
181–365 days	368	540
Over 365 days	<u>4,240</u>	<u>4,456</u>
	<u>10,595</u>	<u>8,176</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading provider of building and community intelligence solution products and integrated communication and automation control systems. The Group's products are widely used in high-rise buildings, high-end residential complexes and smart communities by providing fully digital intelligent control systems for human's modern life. As the world's leading provider of automation control systems, the Group possesses leading standard of technical know-how and commercial competitiveness with which the products are extensively applied in diversified industries including electrical power, petrochemical, public utilities, mining, natural gas and food and beverage industries. The Group has its operation base in Jiaxing City, Zhejiang province of China and has established offices and sales network across major cities in China, including Beijing, Shanghai, Changsha and Hangzhou.

During the six months ended 30 September 2021 (the “**Current Period**”), the Group's principal operations include (i) the control system operations which are engaged in the design, development and sale of automation control systems and (ii) the building intelligence operations which are engaged in the design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

Control system operations

The Group's control system operations provide customers with automation control systems, which are widely used in various industries to monitor pressure, temperature, fluid levels and traffic condition, including airport control and public utilities control. The Group has established a solid customer base ranging from sizeable listed corporations to governmental entities, municipal utilities (fresh water, sewage, gas and city lights) as well as power generation plants.

Attributable to the rapid recovery from the adverse impact under coronavirus disease (“**COVID-19**”) pandemic in China, the Group's production of and customer orders for control systems have fully resumed in the Current Period. In particular, the Group entered into a number of material control system software projects during the Current Period, which contributed higher profit margin to the segment's overall results as compared to the ordinary control system projects. As a result, the external revenue recorded by the Group's control system segment increased significantly to HK\$26.4 million for the Current Period (2020: HK\$15.0 million). Due to the improvement in sales performance and higher profit margin contributed by the software projects newly entered during the Current Period, the control system segment recorded a segment profit of HK\$3.1 million as compared to a segment loss of HK\$1.8 million for the six months ended 30 September 2020 (the “**Prior Period**”).

Building intelligence operations

The Group's building intelligence business mainly provides customers, which comprise major property developers or building systems integrators, with (i) video intercom system and security alarm solutions products for residential complexes; and (ii) smart home devices and systems for households. The production base is located at Jiaxing Science City in Zhejiang province of China, which has developed an efficient and unified manufacturing control process with ISO9001 certification and has been accredited high technology enterprise status with continuing new products and software developments.

During the Current Period, the sales operation of the Group's "MOX" brand video intercom and surveillance system products has improved due to the overall market demand in China's building intelligence industry was recovered from the negative impact of the COVID-19 pandemic. Moreover, the Group has carried out direct trading sales of building intelligence products during the Current Period. As a result, the external revenue of the Group's building intelligence segment increased to HK\$13.6 million for the Current Period (2020: HK\$11.4 million). Owing to the cost increment caused by the overall surge in the integrated circuit chip price worldwide, the segment loss for the Group's building intelligence segment increased from HK\$2.5 million for the Prior Period to HK\$5.5 million for the Current Period.

Leveraging the large installation base and advanced technology, the Group has been making progress in the home automation markets, both in China and in overseas countries such as Australia. Its suite of home automation products are proven, and leading-edge, creating exciting growth potential in new and existing dwellings markets.

Investment in associate engaging in the charging station leasing operations

During the Prior Period, on 19 June 2020, the Company acquired 20% equity interests in an associate namely Iogo Workshop which, through its wholly-owned subsidiary 深圳市海豚共享科技有限公司 (literally translated as Shenzhen Dolphin Technology Company Limited), is principally engaged in the leasing and renting of charging stations for mobile devices and extended value-added services.

For the Current Period, the revenue and the operating loss of the Iogo Workshop Group were HK\$549,000 (2020: HK\$3.8 million) and HK\$2.7 million (2020: HK\$235,000) respectively. An operating loss was recorded mainly due to the COVID-19 pandemic leading to the decrease in advertising income earned during the Prior Period and the Current Period. Accordingly, the loss recognized by the Group as sharing of results of its associates for the Current Period was HK\$538,000 (2020: HK\$72,000). Along with the gradual recovery from the COVID-19 pandemic, the Group believed that the advertising activities and the financial performance of the Iogo Workshop Group will gradually improve in the coming future.

Other business activities

During the Current Period, the Group commenced the business in the rental and maintenance service in relation to computer equipment and machines for customers in Hong Kong, which was for the purpose of better utilization of the Group's financial resources and improving the Group's financial position and performance by positive contribution to the Group's profitability under the current unfavourable business environment. The initial capital expenditure by the Group for the equipment rental and maintenance service business was approximately HK\$9.8 million comprising the acquisition of computer equipment and leasehold improvements, and the business income and profit (included in the Group's other income) recognized for the Current Period were approximately HK\$3.1 million and HK\$0.9 million respectively. As equipment rental contracts and maintenance service contracts were entered into with the customers, the business income and profitability were secured and the Board expects the equipment rental and maintenance service business would contribute stable income and profitability to the Group in the foreseeable future.

Business prospects

As the COVID-19 pandemic in China has been stabilized, the Group's principal operations have recovered and fully resumed to its normal level. The Board remains optimistic on the performance of the Group's businesses in both control system and building intelligence in the coming future. Furthermore, under the current rapidly growing markets in the 5G technology, internet-of-things and the internet home technology in China, the Board believes that it would secure a sustainable and stable demand for our building intelligence products in the China market, and therefore the performance of our building intelligence operations will remain stable and competitive.

Future fund raising and investment opportunities

The Company will continue to explore opportunities for new investments or mergers and acquisitions which can expand or diversify the Group's business and will bring long-term benefit to the Group. This intention is evidenced by the Group's recent investment and engagement in the new equipment rental and maintenance service business during the Current Period and the acquisition of 20% equity interest in Iogo Workshop, which is principally engaged in the leasing of charging stations for mobile devices, in the Prior Period. For the purpose of financing the Group's current businesses or any potential investment or acquisitions in the future, the Company is also continuously seeking and assessing any potential fund-raising opportunities, which may include the issue of new shares or convertible securities of the Company. The Company will make announcement(s) in respect thereof as required by the Listing Rules should they materialize.

FINANCIAL REVIEW

Revenue

The Group recorded a revenue of approximately HK\$40.0 million for the Current Period, representing an increase of approximately HK\$13.6 million or 51.5% as compared to the revenue of approximately HK\$26.4 million for the Prior Period.

During the Current Period, the Group derived its revenue from the control system and the building intelligence businesses. The following table sets forth a breakdown of revenue by business segments for the periods presented:

	For the six months ended 30 September			
	2021		2020	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Building intelligence	13,565	34.0	11,384	43.2
Control system	26,385	66.0	14,983	56.8
	39,950	100.0	26,367	100.0

The increase in the Group's revenue for the Current Period was mainly attributable to the recovery of the market demand for the Group's products and the resumption of the Group's operations and production in China after their suspension due to the outbreak of COVID-19 pandemic in 2020. In particular, a number of material control system software projects were entered into by the Group during the Current Period which contributed to the significant increase in the revenue for the Group's control system business.

Cost of sales

Cost of sales of the Group consists of costs of raw materials, labour costs and manufacturing overheads. It increased by approximately HK\$10.7 million or 60.5% from approximately HK\$17.7 million for the Prior Period to approximately HK\$28.4 million for the Current Period, which is in line with the increase in sales for the Current Period.

Gross profit and gross profit margin

The Group's gross profit for the Current Period was approximately HK\$11.5 million, representing an increase of approximately HK\$2.9 million or 33.7% from approximately HK\$8.6 million for the Prior Period, which is in line with the increase in sales for the Current Period. The gross profit margin for the Current Period slightly dropped to 28.9% (2020: 32.7%) mainly due to the cost increment caused by the overall surge in the integrated circuit chip price worldwide.

Other income

The Group's other income represents, among others, interest income and value-added taxes refund. For the Current Period, it also includes a net gain of approximately HK\$0.9 million (2020: HK\$Nil) in relation to the equipment rental and maintenance service business commenced during the Current Period. Coupled with the significant increase in value-added taxes refund during the Current Period amounted to HK\$1.5 million (2020: HK\$0.3 million), the total other income recognized for the Current Period increased significantly to HK\$5.2 million (2020: HK\$2.7 million).

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately HK\$1.3 million or 81.3% from approximately HK\$1.6 million for the Prior Period to approximately HK\$2.9 million for the Current Period as a result of the increase in sales and marketing activities during the Current Period.

Administrative and other operating expenses

The administrative and other operating expenses of the Group mainly represent the staff costs, depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets and legal and professional fees, amounted to approximately HK\$17.8 million for the Current Period, which was at a similar level as for the Prior Period of approximately HK\$18.0 million.

Research and development expenditure

The research and development expenditure of the Group slightly reduced by approximately HK\$0.2 million or 9.1% from approximately HK\$2.2 million for the Prior Period to approximately HK\$2.0 million for the Current Period as a result of the stricter cost control adopted by the Group and limited research and development activities conducted by the Group during the Current Period.

(Allowance)/reversal of expected credit loss, net

During the Current Period, the Group recorded a net allowance of expected credit loss of HK\$1.4 million in relation to its trade receivables and loan and other receivables, as compared to a net reversal of HK\$3.1 million for the Prior Period. As at 30 September 2021, the Group's trade receivables amounted to HK\$56.2 million (31 March 2021: HK\$53.0 million) and the loan and other receivables amounted to HK\$65.7 million (31 March 2021: HK\$47.0 million), out of which amounts of HK\$15.3 million (31 March 2021: HK\$14.2 million) and HK\$1.6 million (31 March 2021: HK\$1.0 million) were considered impaired for each of the trade receivables and the loan and other receivables respectively based on an expected credit loss model. For the purpose of assessment of expected credit loss, expected loss rates were estimated based on historical observed default rates over the expected life of the debtors and were adjusted for forward looking information that was available without undue costs or effort.

Finance costs

The finance costs of the Group, mainly represents interest expense on bank borrowings, was approximately HK\$2.0 million for the Current Period, which was at a similar level as for the Prior Period of approximately HK\$1.9 million.

Loss for the period

The loss attributable to owners of the Company increased by approximately HK\$0.8 million or 9.9% from approximately HK\$8.1 million for the Prior Period to approximately HK\$8.9 million for the Current Period, mainly attributable to a net provision of expected credit loss for receivables of approximately HK\$1.4 million was recorded during the Current Period as compared to a net reversal of expected credit loss provision of HK\$3.1 million for the Prior Period.

Capital structure, liquidity and financial resources

The liquidity requirements arise principally from the need for working capital to finance its operations and expansions. The Group has been meeting its working capital and other capital requirements principally from cash generated from its operations, bank borrowings and capital contributions by shareholders of the Company (the “**Shareholders**”). In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings. As at 30 September 2021, the issued share capital of the Company was approximately HK\$298.6 million (at 31 March 2021: HK\$258.1 million), comprising 1,194,363,200 shares (the “**Shares**”) of the Company of nominal value of HK\$0.25 each (at 31 March 2021: 1,032,363,200 Shares).

On 19 March 2021, the Company entered into a placing agreement (the “**Placing Agreement**”) with Silverbricks Securities Company Limited (the “**Placing Agent**”), pursuant to which the Company conditionally agreed to place, through the Placing Agent on a best effort basis, up to 202,000,000 placing shares (the “**Placing Shares**”) of the Company of nominal value of HK\$0.25 each at the price (the “**Placing Price**”) of HK\$0.25 per Placing Share to not less than six independent placees (the “**Placing**”). The Placing Price represented a discount of approximately 1.96% to the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on 19 March 2021, being the date of the Placing Agreement. The Board considered that the Placing would strengthen the Group’s financial position, broaden the Company’s shareholder base and would provide financial flexibility to the Company should any investment opportunity arise and for the expansion of the existing business, particularly under the unfavourable COVID-19 pandemic situation. Accordingly, the Directors were of the view that the Placing was in the interests of the Company and the Shareholders as a whole.

The completion of the Placing took place on 14 April 2021 and an aggregate of 162,000,000 Placing Shares were issued and allotted by the Company to not less than six independent placees who were individual investors for cash at the Placing Price of HK\$0.25 per Placing Share, representing approximately 13.56% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the Placing. The aggregate nominal value of the Placing Shares issued and allotted was HK\$40.5 million. The net proceeds from the Placing, after deduction of expenses related to the Placing, amounted to approximately HK\$39.9 million, representing a net price of approximately HK\$0.246 per Placing Share, which were intended to be used as the Group’s general working capital and/or for future investments of the Group as and when the opportunities arise. As at 30 September 2021, the net proceeds from the Placing of approximately HK\$39.9 million were fully utilized during the Current Period as intended use for the Group’s general working capital and for investment opportunities of the Group with details as follows:

Description of use of proceeds	Amount <i>(in HK\$ million)</i>
Payment for computer equipment and leasehold improvements	10.2
Payment for proposed acquisition of shares	3.0
Legal and professional fees	2.0
Net increase in receivables	13.1
Rental expenses, deposits and management fee	2.4
Staff salaries	2.7
Advance to an associate	5.4
Other administrative and operating uses	<u>1.1</u>
Total	<u><u>39.9</u></u>

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 30 September 2021 was approximately 1.2 (31 March 2021: approximately 1.0). Gearing ratio calculated by total borrowings (comprising bank borrowings and lease liabilities) net of cash and cash equivalents, over total equity as at 30 September 2021 was 32% (31 March 2021: 44%).

Bank borrowings

As at 30 September 2021, the Group had outstanding bank borrowings of approximately HK\$69.0 million (31 March 2021: approximately HK\$69.0 million).

Pledge of assets

As at 30 September 2021, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK\$40.2 million (31 March 2021: approximately HK\$41.4 million) pledged against bank borrowings raised by the Group.

Contingent liabilities

As at 30 September 2021, the Group had no material contingent liabilities.

Major acquisition and disposal

On 19 April 2021, the Company entered into a share subscription agreement (the “**Share Subscription Agreement**”) with New Paramount Limited, which is principally engaged in the open smart blockchain platform and disk storage banking technology business in relation to blockchain and decentralized cloud computing systems. Pursuant to the Share Subscription Agreement, the Company or its nominee shall subscribe for new shares of New Paramount Limited representing approximately 3.33% of its enlarged issued share capital at a total consideration of HK\$10,000,000, which has not yet completed as at the date of this announcement.

Save as disclosed above and elsewhere in this announcement, the Group has no other major acquisition or disposal transactions during the six months ended 30 September 2021.

Significant capital expenditure for the period

Save as disclosed above, the Group has no significant capital expenditure commitments as at 30 September 2021.

Risk of foreign exchange fluctuations

Substantially all transactions of the Group are denominated in Renminbi (“**RMB**”), United States dollars (“**US\$**”) and HK\$ and most of the bank deposits are denominated in RMB and HK\$ to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against US\$ and HK\$ during the period, the Directors expect that any fluctuation of RMB’s exchange rate will not have material adverse effect on the operation of the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure as at 30 September 2021.

Employee and remuneration policy

As at 30 September 2021, the Group had 123 employees (31 March 2021: 133). For the six months ended 30 September 2021, the staff costs of the Group amounted to approximately HK\$8.8 million, representing an increase of approximately HK\$1.1 million or 14.3% as compared to approximately HK\$7.7 million for the corresponding period last year, mainly due to the increase in pension contribution by the Group for its employees in China during the Current Period.

The Group’s employee remuneration policy is determined based on a number of factors such as individual performance, experience and prevailing industry practices. Compensation policies and packages of employees are being reviewed on an annual basis. In addition to basic salary, performance related remuneration such as bonus may also be awarded to employees based on internal performance evaluation. The emoluments of the Directors are reviewed at least annually and recommended by the remuneration committee of the Company (the “**Remuneration Committee**”), and decided by the Board, as authorised by the Shareholders at the annual general meeting, in accordance with the Group’s operating results, individual performance and comparable market statistics. The Group also adopted a share option scheme and eligible participants of which may be granted the share options to subscribe for the shares of the Company. As at 30 September 2021, no share options were outstanding under the share option scheme.

The Group has been committing resources in continuing education and training programmes for management staff and other employees in order to upgrade their skills and knowledge. These training courses include internal courses run by the management of the Group and external courses provided by professional trainers. They range from technical training for production staff to financial and administrative trainings for management staff.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events that have occurred subsequent to the end of the reporting period.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 September 2021.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Board considers that the Company was in compliance with all the applicable code provisions as set out in the CG Code during the six months ended 30 September 2021 apart from code provisions A.2 and E.1.2 as disclosed below.

Code provisions under A.2 of the CG Code

Under code provision A.2 of the CG Code, there should be two key aspects on the management of the Company, being the management of the Board and the day-to-day management of the Group's business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Under the current structure and functions of the Board, the role of chairman should be responsible for the management and leadership of the Board while the role of chief executive officer should be responsible for the day-to-day management of the Group's business. However, the position of the chairman of the Board has been vacant since 3 January 2020, and hence the Company did not comply with code provisions under A.2 of the CG Code during the six months ended 30 September 2021.

Currently, the roles and functions of the chairman, including the coordination and communication of the Board, are performed collectively by the Board members themselves. The Company is identifying suitable candidates who possess suitable leadership, knowledge, skills and experience to fill the vacancy of chairman of the Board from time to time.

Code provision E.1.2 of the CG Code

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. As the position of chairman of the Board was vacant as at the date of the annual general meeting held on 27 August 2021 (the “**2021 AGM**”), Mr. Han Weining, the executive Director and chief executive officer of the Company, was appointed as the chairman of the 2021 AGM to answer and address questions raised by the Shareholders at the 2021 AGM.

The Directors believed that Mr. Han Weining, as the chief executive officer of the Company and the executive Director, possessed sufficient knowledge on the Group’s businesses and had the required leadership in maintaining an effective dialogue with Shareholders and addressing any issues or questions raised in the general meeting. Therefore, Mr. Han was considered suitable and appropriate to act as the chairman of the 2021 AGM in the absence of the chairman of the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct for Directors in their dealings in the Company’s securities. Having made specific enquiry to all Directors, all Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 September 2021.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference and revised from time to time to comply with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lam Ying Hung Andy (as committee chairman), Mr. Wang Chen and Ms. Li Mingqi. The principal duties of the Audit Committee are to review and monitor the Group’s financial reporting system, and risk management and internal control systems.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2021 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.synertone.net). The interim report of the Company for the six months ended 30 September 2021 will be despatched to the Shareholders and published on the aforesaid websites in due course.

By order of the Board
Synertone Communication Corporation
Han Weining
Executive Director and Chief Executive Officer

Hong Kong, 30 November 2021

As at the date of this announcement, the executive Directors are Mr. Han Weining and Ms. Wang Jie; and the independent non-executive Directors are Mr. Lam Ying Hung Andy, Mr. Wang Chen and Ms. Li Mingqi.