



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 REPORT 2021

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Han Weining (*Chief Executive Officer*)
Ms. Wang Jie

Independent Non-executive Directors

Mr. Lam Ying Hung Andy
Mr. Wang Chen
Ms. Li Mingqi

COMMITTEES

Audit Committee

Mr. Lam Ying Hung Andy (*Chairperson*)
Mr. Wang Chen
Ms. Li Mingqi

Nomination Committee

Mr. Wang Chen (*Chairperson*)
Mr. Lam Ying Hung Andy
Ms. Li Mingqi

Remuneration Committee

Ms. Li Mingqi (*Chairperson*)
Mr. Lam Ying Hung Andy
Mr. Wang Chen

COMPANY SECRETARY

Mr. Ting Kin Wai

AUTHORISED REPRESENTATIVES

Mr. Han Weining
Mr. Lam Ying Hung Andy
(alternate to Mr. Han Weining)
Mr. Ting Kin Wai

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1012, 10/F
Tsim Sha Tsui Centre
66 Mody Road
Kowloon, Hong Kong

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

WEBSITE

www.synertone.net

STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1613

CORPORATE INFORMATION *(Continued)*

PRINCIPAL BANKERS

HONG KONG

The Hongkong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

PEOPLE'S REPUBLIC OF CHINA

("China" or the "PRC")

Bank of China
China Construction Bank
Bank of Jiaxing
Hecheng Rural Commercial Bank
Agricultural Bank of China
Industrial and Commercial Bank of China
China Merchants Bank
China Minsheng Bank
Bank of Tianjin

LEGAL ADVISER

JunHe
Suite 3701-10, 37/F
Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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**”) hereby presents the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2021, together with the comparative figures for the corresponding period in 2020, as follows:

	Notes	For the six months ended	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	39,950	26,367
Cost of sales		(28,403)	(17,741)
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		(1,429)	3,061
Loss from operations		(7,403)	(7,495)
Finance costs	6(a)	(2,014)	(1,911)
Share of results of associates		(538)	(72)
Loss before tax	6	(9,955)	(9,478)
Income tax (expense)/credit	7	(9)	966
Loss for the period		(9,964)	(8,512)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

For the six months ended 30 September 2021

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

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 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	44,533	37,401
Right-of-use assets		13,567	14,275
Intangible assets		–	32
Goodwill	11	51,301	51,301
Interests in associates	12	54,962	55,500
Deposits and prepayments	13	1,312	1,087
		165,675	159,596
Current assets			
Inventories		44,959	50,217
Trade and other receivables	13	116,324	95,716
Amount due from an associate	12	5,439	–
Cash and cash equivalents		13,924	4,185
		180,646	150,118
Current liabilities			
Trade and other payables	14	47,169	41,729
Contract liabilities		31,918	29,625
Amount due to an associate	12	–	337
Bank borrowings	15	69,001	69,001
Lease liabilities		3,561	3,406
		151,649	144,098

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 September 2021

	<i>Note</i>	As at 30 September 2021 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Net current assets		28,997	6,020
Total assets less current liabilities		194,672	165,616
Non-current liabilities			
Lease liabilities		2,099	2,974
		2,099	2,974
Net assets		192,573	162,642
EQUITY			
Share capital	16	298,591	258,091
Reserves		(111,345)	(101,873)
Equity attributable to owners of the Company		187,246	156,218
Non-controlling interests		5,327	6,424
Total equity		192,573	162,642

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2021

	Attributable to owners of the Company						Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000		
At 1 April 2020 (Audited)	258,091	844,028	(90)	(9,996)	(6,929)	(919,536)	165,568	173,205
Loss for the period	-	-	-	-	-	(8,110)	(8,110)	(8,512)
Other comprehensive income for the period	-	-	-	-	61	-	61	61
Total comprehensive expense for the period	-	-	-	-	61	(8,110)	(8,049)	(8,451)
At 30 September 2020 (Unaudited)	258,091	844,028	(90)	(9,996)	(6,868)	(927,646)	157,519	164,754
At 1 April 2021 (Audited)	258,091	844,028	(90)	(9,996)	(1,146)	(934,669)	156,218	162,642
Loss for the period	-	-	-	-	-	(8,867)	(8,867)	(9,964)
Other comprehensive income for the period	-	-	-	-	7	-	7	7
Total comprehensive expense for the period	-	-	-	-	7	(8,867)	(8,860)	(9,957)
Transactions with owners								
Issue of shares	40,500	-	-	-	-	-	40,500	40,500
Share issuance costs	-	(612)	-	-	-	-	(612)	(612)
Total transactions with owners	40,500	(612)	-	-	-	-	39,888	39,888
At 30 September 2021 (Unaudited)	298,591	843,416	(90)	(9,996)	(1,139)	(943,536)	187,246	192,573

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2021

	For the six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	3,324	(5,848)
Investing activities		
Payment for the purchase of property, plant and equipment	(10,687)	(2,223)
Advance to an associate	(5,439)	(1,670)
Acquisition of investment in associates	–	(56,000)
Payment for proposed acquisition of shares	(3,000)	(1,250)
Interest received	12	2,036
Loans and advance to independent third parties	(11,506)	(13,652)
Repayment of loans from independent third parties	–	53,820
Other investing cash flows	1,026	–
Net cash used in investing activities	(29,594)	(18,939)
Financing activities		
Proceeds from bank borrowings	30,869	25,829
Repayment of bank and other borrowings	(30,869)	(30,307)
Proceeds from issue of new shares	40,500	–
Share issuance cost	(612)	–
Interest paid	(2,014)	(1,776)
Repayment of lease liabilities	(1,865)	(1,325)
Net cash generated from/(used in) financing activities	36,009	(7,579)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 September 2021

	For the six months ended	
	30 September	2020
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net increase/(decrease) in cash and cash equivalents	9,739	(32,366)
Cash and cash equivalents at beginning of the period	4,185	46,310
Effect of foreign exchange rates changes	–	61
Cash and cash equivalents at end of the period, representing bank balances and cash	13,924	14,005

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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

3. SEGMENT REPORTING *(Continued)*

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 HK\$'000 (Unaudited)	Control system HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	13,565	26,385	39,950
Inter-segment revenue	1,683	1,279	2,962
Reportable segment revenue	15,248	27,664	42,912
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			(5,462)
Consolidated loss before tax			(9,955)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

3. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

	For the six months ended 30 September 2020		
	Building intelligence HK\$'000 (Unaudited)	Control system HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	11,384	14,983	26,367
Inter-segment revenue	1,413	772	2,185
Reportable segment revenue	12,797	15,755	28,552
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			(3,575)
Consolidated loss before tax			(9,478)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

3. SEGMENT REPORTING *(Continued)*

Segment assets and liabilities

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Building intelligence	13,565	11,384
Control system	26,385	14,983
	39,950	26,367

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 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
PRC	39,895	25,789
Overseas	55	578
	39,950	26,367

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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	1,844	1,408
	5,152	2,656
Other losses		
Net exchange loss	(14)	(24)
	(14)	(24)
	5,138	2,632

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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
	2,014	1,911

(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
	8,751	7,691

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

6. LOSS BEFORE TAX *(Continued)*

(b) Staff costs (including Directors' emoluments) *(Continued)*

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 HK\$'000 (Unaudited)	2020 HK\$'000 (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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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	(9)	966

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

7. INCOME TAX (EXPENSE)/CREDIT *(Continued)*

Notes: (Continued)

- (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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

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	(8,867)	(8,110)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	1,182,855	1,032,363

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2021

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2021, the Group spent HK\$10,687,000 on additions to property, plant and equipment (six months ended 30 September 2020: HK\$2,223,000).

11. GOODWILL

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Cost	239,613	239,613
Less: Accumulated impairment losses	(188,312)	(188,312)
Carrying amount	51,301	51,301

The carrying amount of goodwill as at 30 September 2021 and 31 March 2021 were allocated to two individual cash generating units as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Building intelligence	–	–
Control system	51,301	51,301
	51,301	51,301

During the six months ended 30 September 2021, the Group recognised no impairment loss (six months ended 30 September 2020: HK\$Nil) under control system cash generating unit as management of the Group determines that the carrying amount of those assets related to the cash generating unit exceeded the recoverable amount at the end of each reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2021

12. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM/TO AN ASSOCIATE

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 logo Workshop Investment Limited (“**logo Workshop**”) at a total consideration of HK\$56 million. logo Workshop, together with its subsidiaries as the “**logo 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 logo Workshop was completed on 19 June 2020 and thereafter, logo 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
Amount due from/(to) an associate (<i>note</i>)	5,439	(337)

Note: The amount due from/(to) an associate was unsecured, non-interest bearing and repayable or recoverable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

12. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM/TO AN ASSOCIATE *(Continued)*

The following is a list of the particulars of associates of the Company, which are unlisted corporate entities of which quoted market prices are not available, as at 30 September 2021:

Name of entities	Place of incorporation and business	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activities
logo Workshop Investment Limited	BVI	20% (Direct)	20%	Investment holding
Dolphin International Technology Co., Limited	Hong Kong	20% (Indirect)	20%	Investment holding
深圳海豚充电科技有限公司 <i>(note a)</i>	PRC	20% (Indirect)	20%	Investment holding
深圳市海豚共享科技有限公司 <i>(note b)</i>	PRC	20% (Indirect)	20%	Leasing and renting of charging stations for mobile devices and extended value-added services

Notes:

- (a) Registered under the laws of the PRC as a wholly-owned foreign enterprise.
- (b) Registered under the laws of the PRC as a limited liability company.
- (c) The above associates are accounted for using the equity method in the condensed consolidated financial statements.
- (d) The financial year end date for logo and its subsidiaries is 31 March.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

12. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM/TO AN ASSOCIATE *(Continued)*

Summarised financial information in respect of the logo Workshop Group is set out as below:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Current assets	26,214	38,192
Non-current assets	18,184	18,774
Current liabilities	(24,099)	(33,976)
Non-current liabilities	–	–
Net assets	20,299	22,990

	For the six months ended 30 September 2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	549	3,790
Loss for the period	(2,691)	(235)
Other comprehensive income for the period	–	19
Total comprehensive expense for the period	(2,691)	(216)
Dividends received from the associates during the period	–	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

12. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM/TO AN ASSOCIATE *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of interests in associates recognised in the condensed consolidated financial statements as at 30 September 2021:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Net assets of the logo Workshop Group	20,299	22,990
Proportion of the Group's ownership interest in the logo Workshop Group	20%	20%
Group's share of net assets of the logo Workshop Group	4,060	4,598
Goodwill	50,902	50,902
Carrying amount of the Group's interests in the logo Workshop Group	54,962	55,500

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

13. 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:		
Non-current	1,312	1,087
Current	116,324	95,716
	117,636	96,803

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

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	38,194	38,869
	56,176	53,027
Less: Loss allowance	(15,266)	(14,224)
	40,910	38,803

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2021

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

Notes: (Continued)

- (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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

Notes: (Continued)

(c) *(Continued)*

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2021

14. 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 (note)	34,896	32,116
Financial liabilities measured at amortised cost	46,700	41,379
Other tax payables	469	350
	47,169	41,729

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	4,240	4,456
	10,595	8,176

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

15. BANK BORROWINGS

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Bank borrowings		
– secured	58,474	58,474
– unsecured	10,527	10,527
	69,001	69,001
	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)

The carrying amounts of the above borrowings are repayable based on scheduled repayment dates set out in the loan agreements:

Within one year	69,001	69,001
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The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:

Within one year	69,001	69,001
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

15. BANK BORROWINGS *(Continued)*

The banking facilities are subject to the fulfilment of covenants. If the Group was in breach of the covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants. As at 30 September 2021, none of the covenants relating to drawn down facilities had been breached (31 March 2021: Nil).

All of the Group's bank borrowings are carried at amortised cost.

All the bank borrowings are fixed-rate borrowings which carry interest at prevailing interest rates of 4.35%–6.50% per annum for the period ended 30 September 2021 (31 March 2021: 4.35%–6.50% per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

16. SHARE CAPITAL

	30 September 2021		31 March 2021	
	Number of shares '000	Amount HK\$'000 (Unaudited)	Number of shares '000	Amount HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.25 each	1,600,000	400,000	1,600,000	400,000
Issued and fully paid:				
At beginning of the period/year (ordinary shares of HK\$0.25 each)	1,032,363	258,091	1,032,363	258,091
Issue of new shares (note)	162,000	40,500	–	–
At end of the period/year (ordinary shares of HK\$0.25 each)	1,194,363	298,591	1,032,363	258,091

Note:

During the six months ended 30 September 2021, the Company issued 162,000,000 new shares of HK\$0.25 each under general mandate to independent third parties at the subscription price of HK\$0.25 per share. The net proceeds amounting to approximately HK\$39.9 million have been applied as general working capital and further investments of the Group.

17. COMMITMENTS

The Group did not have significant commitments outstanding as at 30 September 2021 and 31 March 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2021

18. MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following material transactions with its related parties during the period:

(a) Transactions with related parties

	For the six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sale under building intelligence segment		
– logo Workshop Group	1,616	47

(b) Transactions with key management personnel

The remuneration of directors and other members of key management of the Group during the period is as follows:

	For the six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,658	1,564
Post-employment benefit	21	21
	1,679	1,585

The remuneration of directors and other key executives is determined having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2021

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Guarantee

At the end of each reporting period, a personal guarantee was given by Mr. Han Weining, the chief executive officer and executive Director, with the carrying value of bank borrowing as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Bank borrowing guaranteed and secured by a Director	15,305	15,305

19. EVENTS AFTER THE REPORTING PERIOD

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

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**").

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 logo Workshop at a consideration of HK\$56 million 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. At 30 September 2021, the carrying value of logo Workshop Group was HK\$55.0 million, representing approximately 15.9% of the Group's total assets value.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

For the Current Period, the revenue and the operating loss of the logo 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 logo 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 Logo 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	
	HK\$'000	%	HK\$'000	%
	(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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 places (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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 places 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 (in HK\$ million)
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	1.1
Total	39.9

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%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 report.

Save as disclosed above and elsewhere in this report, 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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.

OTHER INFORMATION

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).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 September 2021, the interests and short positions of the Directors and chief executive of the Company in any of the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Chapter 571, Laws of Hong Kong ("**SFO**")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules were as follows:

LONG POSITIONS IN SHARES

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding
Mr. Han Weining	Interest of a controlled corporation	238,942,059 (Note)	20.01%
	Beneficial owner	8,160,000	0.68%

Note: These interests in Shares are held by Excel Time Investments Limited ("**Excel Time**"), which is wholly and beneficially owned by Mr. Han Weining, the chief executive officer of the Company and an executive Director. By virtue of the SFO, Mr. Han Weining is deemed to be interested in these 238,942,059 Shares. Mr. Han Weining is the sole director of Excel Time.

OTHER INFORMATION *(Continued)*

Save as disclosed above, as at 30 September 2021, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

At no time during the period under review were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

As at 30 September 2021, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

LONG POSITION IN SHARES

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of issued Shares <i>(Note 1)</i>
Excel Time	Beneficial owner	238,942,059 <i>(Note 2)</i>	20.01%
Lam Siu Sun	Beneficial owner	178,582,400	14.95%

OTHER INFORMATION *(Continued)*

Notes:

1. Based on 1,194,363,200 Shares in issue as at 30 September 2021.
2. Excel Time is wholly-owned by Mr. Han Weining, the chief executive officer of the Company and an executive Director whose interest in Shares is set out in the above section headed "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures of the Company or its associated corporations".

Save as disclosed above, as at 30 September 2021, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying shares of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the "**Share Option Scheme**") which was adopted on 22 March 2012. The purpose of the Share Option Scheme is to recognise and motivate the contribution of the eligible persons to the Group.

During the six months ended 30 September 2021, no share option was granted, exercised, lapsed or cancelled, and there was no outstanding share option under the Share Option Scheme as at 30 September 2021 (31 March 2021: Nil). The total number of Shares available for issue under the Share Option Scheme was 86,036,320 Shares, representing approximately 7.20% of the total number of Shares in issue as at the date of this interim report.

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.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Change in Director's information since the date of the 2021 annual report of the Company up to the date of this interim report is set out below:

- Mr. Wang Chen, an independent non-executive Director, whose term of directorship under the letter of appointment with the Company was renewed automatically on 25 June 2021 for three years until 24 June 2024.

OTHER INFORMATION *(Continued)*

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.

OTHER INFORMATION *(Continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the six months ended 30 September 2021 and up to the date of this report.

On Behalf 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 report, 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.