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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 2022**

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 2022 together with the comparative unaudited figures for the corresponding period in 2021. 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 2022

		For the six months ended 30 September	
	Notes	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	4	19,312	39,950
Cost of sales		<u>(16,165)</u>	<u>(28,403)</u>
Gross profit		3,147	11,547
Other income	5	2,589	5,152
Other gains/(losses), net	5	1,861	(14)
Selling and distribution expenses		(984)	(2,872)
Administrative and other operating expenses		(14,765)	(17,812)
Research and development expenditure		(1,504)	(1,975)
Reversal of/(allowance for) expected credit loss, net		<u>3,058</u>	<u>(1,429)</u>
Loss from operations		(6,598)	(7,403)
Finance costs	6(a)	(1,981)	(2,014)
Share of results of associates		<u>(272)</u>	<u>(538)</u>
Loss before tax	6	(8,851)	(9,955)
Income tax expense	7	<u>(4)</u>	<u>(9)</u>
Loss for the period		<u>(8,855)</u>	<u>(9,964)</u>

	For the six months ended	
	30 September	
	2022	2021
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period attributable to:		
Owners of the Company	(8,076)	(8,867)
Non-controlling interests	<u>(779)</u>	<u>(1,097)</u>
	<u>(8,855)</u>	<u>(9,964)</u>
	<i>HK cent</i>	<i>HK cent</i>
Loss per share		
– Basic and diluted	<u>9 (0.64)</u>	<u>(0.75)</u>

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

For the six months ended 30 September 2022

	For the six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(8,855)	(9,964)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>221</u>	<u>7</u>
Other comprehensive income for the period, net of tax	<u>221</u>	<u>7</u>
Total comprehensive expense for the period	<u>(8,634)</u>	<u>(9,957)</u>
Total comprehensive expense attributable to:		
Owners of the Company	(7,896)	(8,860)
Non-controlling interests	<u>(738)</u>	<u>(1,097)</u>
	<u>(8,634)</u>	<u>(9,957)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		As at 30 September 2022	As at 31 March 2022
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		34,472	43,432
Right-of-use assets		13,000	17,055
Intangible assets		–	–
Goodwill		25,228	25,228
Interests in associates	<i>10</i>	53,922	54,737
Deposits and prepayments	<i>11</i>	2,254	2,073
		<u>128,876</u>	<u>142,525</u>
Current assets			
Inventories		45,788	55,293
Trade and other receivables	<i>11</i>	39,817	56,894
Amount due from an associate		9,423	8,731
Cash and cash equivalents		9,738	8,009
		<u>104,766</u>	<u>128,927</u>
Current liabilities			
Trade and other payables	<i>12</i>	40,978	43,809
Contract liabilities		28,934	40,730
Bank borrowings		60,921	72,337
Lease liabilities		5,026	6,172
		<u>135,859</u>	<u>163,048</u>
Net current liabilities		<u>(31,093)</u>	<u>(34,121)</u>
Total assets less current liabilities		<u>97,783</u>	<u>108,404</u>

	As at 30 September 2022 HK\$'000 (Unaudited)	As at 31 March 2022 HK\$'000 (Audited)
Non-current liabilities		
Lease liabilities	<u>982</u>	<u>2,969</u>
Net assets	<u>96,801</u>	<u>105,435</u>
EQUITY		
Share capital	313,091	313,091
Reserves	<u>(218,094)</u>	<u>(210,198)</u>
Equity attributable to owners of the Company	94,997	102,893
Non-controlling interests	<u>1,804</u>	<u>2,542</u>
Total equity	<u>96,801</u>	<u>105,435</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2022

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, (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings, and (iii) the rental and maintenance services in relation to computer equipment and machines and other related services.

The principal operations of the Group are conducted in the People's Republic of China (the "**PRC**" or "**China**"). Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The condensed consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the functional currency of the Company. For the convenience of the financial statements users, the condensed consolidated financial statements are presented in HK\$, as the Company's shares are listed on the Stock Exchange. These financial statements are presented in HK\$, rounded to the nearest thousand except for per share data.

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 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2022.

In the current interim period, the Group has applied, for the first time, a number of 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 January 2022 for the preparation of the Group's condensed consolidated financial statements. The application of the 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.

In preparing the condensed consolidated financial statements of the Group, the Directors have given consideration to the future liquidity of the Group in light of its net loss of approximately HK\$8,855,000 incurred for the six months ended 30 September 2022 and, as at that date, the Group had net current liabilities of approximately HK\$31,093,000.

In view of the above circumstances, the Directors have given careful consideration to the future liquidity and financial position of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity position and to improve the Group's financial position which include, but are not limited to, the following:

- (i) the Group has taken measures to tighten cost control over expenses, manage and expedite receivables and negotiate a compromise with creditors with a view to achieving positive cash flow from operations;
- (ii) the Group has the ability to obtain new banking and other financing facilities and has the ability to renew or refinance the banking facilities upon maturity;
- (iii) Mr. Han Weining, the Director of the Company, has stated that he is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due; and
- (iv) the Company will carry out the placing of new shares to facilitate the raising of cash from third party investors.

The Directors have reviewed the Group's cash flow projections. The cash flow projections cover a period of not less than twelve months from 30 September 2022.

Hence, the Directors have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future and that there are uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the condensed consolidated financial statements.

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 ("CODM"), for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

The Group has commenced the business engaging in Data Centre (see below), and it is considered as a new operating and reportable segment by CODM for the six months ended 30 September 2022.

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.
Data Centre:	Rental and maintenance services in relation to computer equipment and machines and other related services.

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.

Information regarding the Group's reportable segments as provided to the Group's chief executive officer for the purpose for resource allocation and assessment of segment performance for each of the six months ended 30 September 2022 and 2021 is as follows:

Segment revenue and results

	For the six months ended 30 September 2022			Total HK\$'000 (Unaudited)
	Building intelligence HK\$'000 (Unaudited)	Control system HK\$'000 (Unaudited)	Data centre HK\$'000 (Unaudited)	
Revenue from external customers	3,975	14,666	671	19,312
Inter-segment revenue	<u>1,377</u>	<u>1,080</u>	<u>-</u>	<u>2,457</u>
Reportable segment revenue	<u><u>5,352</u></u>	<u><u>15,746</u></u>	<u><u>671</u></u>	<u><u>21,769</u></u>
Reportable segment (loss)/income (Adjusted EBIT)	(3,393)	1,339	(1,695)	(3,749)
Interest income				167
Finance costs				(1,981)
Share of results of associates				(272)
Unallocated corporate income and expenses, net				<u>(3,016)</u>
Consolidated loss before tax				<u><u>(8,851)</u></u>
	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	<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 (loss)/income (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>

Segment assets and liabilities

	Building intelligence		Control system		Data centre		Total	
	30	31 March	30	31 March	30	31 March	30	31 March
	September	2022	September	2022	September	2022	September	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Assets								
Reportable segment assets	88,996	104,470	54,450	61,317	8,546	9,210	151,992	174,997
Unallocated corporate assets							81,650	96,455
Consolidated total assets							233,642	271,452
Liabilities								
Reportable segment liabilities	106,560	127,373	16,207	23,004	394	868	123,161	151,245
Unallocated corporate liabilities							13,680	14,772
Consolidated total liabilities							136,841	166,017

4. REVENUE

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

	For the six months ended	
	30 September	2021
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Building intelligence	3,975	13,565
Control system	14,666	26,385
Data centre	371	–
Total revenue from contract with customers	19,012	39,950
Add:		
Rental income under HKFRS 16	300	–
Total revenue	19,312	39,950

Revenue from building intelligence operation and control system operation recognised at a point in time when the customer obtains control of the goods.

Revenue from data centre operation recognised on over time when the service provided.

Disaggregation of the Group's revenue by geographic markets is as follows:

	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong (place of domicile)	1,028	–
PRC	18,230	39,895
Overseas	54	55
	<u>19,312</u>	<u>39,950</u>

5. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income		
Interest income on bank deposits (<i>note a</i>)	2	12
Interest income on loan receivables (<i>note a</i>)	165	352
Net equipment rental and maintenance service income (<i>note b</i>)	–	921
Government grants (<i>note c</i>)	563	547
Value-added taxes refund (<i>note d</i>)	232	1,476
Sundry income	1,627	1,844
	<u>2,589</u>	<u>5,152</u>
Other gains/(losses)		
Net exchange gain/(loss)	72	(14)
Gain on disposal of property, plant and equipment	1,789	–
	<u>1,861</u>	<u>(14)</u>
	<u>4,450</u>	<u>5,138</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 for the six months ended 30 September 2021 represents the net income arising from the Group's data centre operation, being 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. Such data centre operation was subsequently considered as a new operating and reportable segment by CODM and the related income and expenses were recognized as the Group's revenue and cost of sales in the condensed consolidated statement of profit or loss under the new data centre segment for the six months ended 30 September 2022.
- (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/(crediting) the following:

(a) Finance costs

	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings	1,789	1,861
Finance charges on lease liabilities	192	153
	<u>1,981</u>	<u>2,014</u>

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

	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	8,003	8,001
Contributions to defined contribution retirement plans	1,481	750
	9,484	8,751

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.

As at 30 September 2022 and 2021, the Group had no forfeited contributions available to reduce the existing level of contributions.

(c) **Other items**

	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expenses	15,594	27,720
(Reversal of)/allowance for expected credit loss, net:		
– Trade receivables	(748)	864
– Loan and other receivables	(2,317)	565
– Amount due from an associate	7	–
Depreciation of property, plant and equipment	2,342	2,338
Depreciation of right-of-use assets	2,988	1,853

7. INCOME TAX EXPENSE

	For the six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax (“EIT”) (<i>note d</i>)	<u>4</u>	<u>9</u>
Income tax expense	<u><u>4</u></u>	<u><u>9</u></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) Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both 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 2022, 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 2021: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$8,076,000 (six months ended 30 September 2021: approximately HK\$8,867,000) and the weighted average number of ordinary shares of the Company in issue during the period:

	For the six months ended 30	
	September	
	2022	2021
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,252,363</u>	<u>1,182,855</u>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the six months ended 30 September 2021 have been adjusted for the effect of share placing on 14 April 2021.

No diluted loss per share is presented as there was no potential dilutive ordinary shares in issue during both periods.

10. INTERESTS IN ASSOCIATES

On 5 June 2020, the Company, as purchaser, entered into a sale and purchase agreement 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 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Cost of investment in associates	56,000	56,000
Share of post-acquisition loss, net of dividends received	(2,076)	(1,804)
Exchange adjustments	(2)	541
	<u>53,922</u>	<u>54,737</u>

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Trade receivables (<i>notes a, b</i>)	35,753	47,086
Less: Loss allowance (<i>note c</i>)	(23,343)	(27,746)
	<u>12,410</u>	<u>19,340</u>
Bill receivables	–	493
Loan receivables	22,257	37,717
Other receivables (<i>note d</i>)	31,364	28,184
Prepaid value-added and other taxes	28	287
Deposits and prepayments	14,422	13,694
Less: Loss allowance	(38,410)	(40,748)
	<u>29,661</u>	<u>39,627</u>
	<u>42,071</u>	<u>58,967</u>

Reconciliation to the condensed consolidated statement of financial position:

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Non-current	2,254	2,073
Current	<u>39,817</u>	<u>56,894</u>
	<u>42,071</u>	<u>58,967</u>

Notes:

- (a) For the six months ended 30 September 2022, 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 2022: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2022: 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 past due date:

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Not yet past due	5,525	11,996
1-60 days	1,093	2,284
61-90 days	1,824	1,586
91-180 days	1,496	992
181-365 days	4,492	5,038
Over 365 days	<u>21,323</u>	<u>25,190</u>
	35,753	47,086
Less: Loss allowance	<u>(23,343)</u>	<u>(27,746)</u>
	<u>12,410</u>	<u>19,340</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 2022 and 31 March 2022:

	Average loss rate		Gross carrying amount		Loss allowance	
	30 September 2022 %	31 March 2022 %	30 September 2022 HK\$'000	31 March 2022 HK\$'000	30 September 2022 HK\$'000	31 March 2022 HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Individual assessment	100.00%	100.00%	21,323	25,190	21,323	25,190
Collective assessment:						
Not yet past due	6.17%	6.17%	5,525	11,996	341	740
1–60 days	13.84%	13.84%	1,093	2,284	151	316
61–90 days	17.78%	17.78%	1,824	1,586	324	282
91–180 days	19.15%	19.15%	1,496	992	287	190
181–365 days	20.40%	20.40%	4,492	5,038	917	1,028
			35,753	47,086	23,343	27,746

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) Amount mainly represents the past due gross outstanding receivable balance of approximately HK\$16,881,000 (31 March 2022: HK\$16,881,000), with full allowance of HK\$16,881,000 (31 March 2022: HK\$16,881,000) arising from one-off respirator masks trading to an independent third party.

12. TRADE AND OTHER PAYABLES

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Trade payables	7,258	8,306
Accrued salaries	2,516	1,545
Accrued expenses and other payables (<i>note</i>)	<u>30,827</u>	<u>33,653</u>
Financial liabilities measured at amortised cost	40,601	43,504
Other tax payables	<u>377</u>	<u>305</u>
	<u>40,978</u>	<u>43,809</u>

Note:

Amount includes the outstanding payable balance of approximately HK\$6,525,000 (31 March 2022: HK\$6,525,000) arising from one-off respirator masks trading transaction.

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

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
0–60 days	1,179	2,466
61–90 days	513	530
91–180 days	546	390
181–365 days	1,097	330
Over 365 days	<u>3,923</u>	<u>4,590</u>
	<u>7,258</u>	<u>8,306</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. Besides, the Group commenced its new data centre business in Hong Kong during the financial year ended 31 March 2022, which involves the rental and maintenance services for computer equipment and machines located in Hong Kong.

During the six months ended 30 September 2022 (the “**Current Period**”), the Group's principal operations include (i) design, development and sale of automation control systems, (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings, and (iii) the rental and maintenance services in relation to computer equipment and machines, information technology infrastructure and platform and robots and other related services.

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 recent lockdown policy due to the coronavirus disease (“**COVID-19**”) pandemic outbreak in China, the principal operation of our control system business, including the on-site technical support services for corporate projects, was seriously affected and suspended in the second quarter of 2022. Such adverse impact was particularly for those operations located in Eastern China region like Shanghai. As a result, the revenue and operating profit from the control system segment dropped to HK\$14.7 million (2021: HK\$26.4 million) and to HK\$1.3 million (2021: HK\$3.1 million) respectively for the Current Period, as compared to the six months ended 30 September 2021 (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 worsened with revenue decreased from HK\$13.6 million for the Prior Period to HK\$4.0 million for the Current Period. Such decrease in revenue was mainly due to the lockdown in China since the second quarter of 2022, particularly for Shanghai and Jiaxing regions where the principal production and operation of the Group's building intelligence operations were located, which led to the complete suspension on our production and operation for up to two months. Owing to the cost increment caused by the recent surge in the worldwide pricing for its product components like integrated circuit chips, monitors and touch screens, the Group's building intelligence segment recorded an operating loss of HK\$3.4 million for the Current Period (2021: HK\$5.5 million).

Data centre operations

During the financial year ended 31 March 2022, the Group developed and commenced its new data centre business in the provision of rental and maintenance services to customers in relation to computer equipment and machines, information technology infrastructure and platform and robots and other related services. The launch of new business by the Group was for the purpose of better utilisation of the Group's financial resources and improving the Group's financial position and performance under the current unfavourable business environment. As at 30 September 2022, the capital expenditure by the Group for the data centre operations was approximately HK\$10.0 million, comprising the acquisition of high-quality computer equipment and leasehold improvements for equipment warehouse of approximately HK\$9.8 million and the acquisition of commercial service robots of approximately HK\$0.2 million.

During the Current Period, the Group rented out high-quality computer equipment and provided related custody and maintenance services to a corporate customer located in Hong Kong with revenue of HK\$0.6 million, and the corresponding loss of HK\$1.5 million was recognized for the Current Period which was mainly due to the related rental and maintenance service contracts expired in May 2022 without further renewal. In April 2022, the Group launched its new project on the commercial service robots rental business, which contributed a revenue of approximately HK\$116,000 and a profit of approximately HK\$97,000. Accordingly, the Group's data centre operations recorded an overall revenue and segment loss of HK\$0.7 million and HK\$1.7 million respectively for the Current Period. In the Prior Period, due to the initial start-up of the data centre operations, the net equipment rental and maintenance service income of HK\$0.9 million, representing the gross income of HK\$3.1 million net of related costs of HK\$2.2 million, was included and presented as the Group's other income in the condensed consolidated statement of profit or loss.

Investment in associate engaging in the charging station leasing operations

In June 2020, the Company acquired 20% equity interests in an associate Iogo 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. As at 30 September 2022, the carrying value of Iogo Workshop Group in the Group's condensed consolidated financial statements was approximately HK\$53.9 million (31 March 2022: HK\$54.7 million), representing approximately 23.1% (31 March 2022: 20.2%) of the Group's total assets value.

Owing to the COVID-19 pandemic, a number of provinces in China have experienced on-and-off lockdown during the Current Period which led to closure and suspension of operation of retail and catering business in China. As the operation points for leasing of the Iogo Workshop Group's mobile charging stations are principally located at retail outlets and restaurants in China, Iogo Workshop Group's leasing business was negatively affected. As such, the revenue of the Iogo Workshop Group dropped significantly to HK\$58,000 (2021: HK\$549,000) and an operating loss of HK\$1.4 million (2021: HK\$2.7 million) was recorded for the Current Period. Accordingly, the loss recognised by the Group as sharing of results of its associates for the Current Period was HK\$272,000 (2021: HK\$538,000).

It is still unclear on the future development of COVID-19 pandemic in China, however, once the pandemic situation improved and the strict restrictions be removed, the Group believed that the leasing and advertising activities of the Iogo Workshop Group will resume to normal and the financial performance will gradually improve.

Business prospects on the Group's principal operations

Due to the on-and-off lockdown in China since the second quarter of 2022, the production and principal operation of both our control system and building intelligence businesses, particularly for those operations located in Shanghai and Jiaxing regions, were seriously affected and suspended. As a result, the Board expects that it will lead to a drop in revenue and will have a negative impact on the financial results and performance of both segments in the short-term future, especially for the financial year ending 31 March 2023. However, as these principal operations are mainly on corporate project basis in relation to building intelligence solutions, control system and infrastructure and the business nature is not closely related to the pandemic, the Board believes that once the COVID-19 pandemic situation in China getting stable and the lockdown being lifted by the China government, the operations and financial performance for both businesses will resume and improve quickly and will follow a stable organic growth trend in the mid-term future.

Under the rapidly growing markets in the 5G technology, internet-of-things and the internet home technology in China currently, the Board believes that it would secure a sustainable and stable demand for our building intelligence products in the China market and therefore our building intelligence operations will remain competitive in the future. However, in view of the significant finance costs and depreciation charge incurred which led to the persistent segment loss recorded by the building intelligence business, the Board is continuously considering and assessing any possible restructuring plan on the building intelligence business, including but not limited to asset disposal and business restructuring or disposal, with the aim to optimize its business return. Such business restructuring was still at the preliminary stage and no final plan has been concluded and the Company will make further announcement(s) in respect thereof as required by the Listing Rules.

Regarding our new data centre business, the rental contracts and maintenance service contracts in relation to our high-quality computer equipment expired during the Current Period without further renewal under the current unfavourable economic environment. Although the Group has launched its new project on the commercial service robots rental business during the Current Period which brought operating profit to the Group, the Board considered that the income generated by the data centre business would be maintained at a minimal level in the near future. However, the Company will keep monitoring the market condition and will consider to further develop or expand its data centre business again should there be any recovery on the data centre market.

Future fund raising and investment opportunities

The Company will continue to explore opportunities for new business and 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 data centre business. 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 materialise.

Money lending transactions of the Group

As at 30 September 2022, the Group had outstanding loan receivables of net carrying amount totally HK\$949,000 with major terms as follows:

Name of borrowers	Date	Principal amount HK\$'000	Key terms of loan receivables			Outstanding amount	Loss allowance	Carrying amount
			Interest rate	Tenor	Collaterals	as at 30 September 2022 HK\$'000	as at 30 September 2022 HK\$'000	as at 30 September 2022 HK\$'000
Debtor 1	29 April 2020	13,000	8% per annum	One month	Mining inventory assets and personal guarantee	10,087	("Receivable 1") (10,087)	-
Debtor 2	22 May 2020	13,000 (revolving facility maximum)	Interest free	Repayable upon demand	Factory production equipment and machinery	11,043	("Receivable 2") (11,043)	-
Debtor 3	22 April 2022	2,821	5% per annum	One year	Nil	913	("Receivable 3") (144)	769
Debtor 4	20 April 2022	210	5% per annum	One year	Nil	214	("Receivable 4") (34)	180
						<u>22,257</u>	<u>(21,308)</u>	<u>949</u>

All the loan transactions above were not in the ordinary course of business of the Group and all applicable size test percentage ratios under the Listing Rules were below 5%. The details of each of the borrowers, bases of impairment assessment on each of the loans, the reasons for granting of loans and how they met the Group's business strategies are disclosed below.

For Debtor 1

Debtor 1, a business acquaintance of the Group and a party independent of the Company and its connected person, was a corporate which engaged in the trading business and investment and was an active face masks trader with customers overseas in early 2020. In 2020, the Group discussed possible cooperation on face masks trading with Debtor 1, during which the Group reviewed Debtor 1's business plan and forecast with regard to the possible cooperation. In about April 2020, Debtor 1 asked the Group for a short-term working capital fund for its face masks trading business. Considering the outbreak of COVID-19 was still happening in most parts of the world and face masks were in high demand due to mandatory requirement to wear face masks in many countries, and the possible cooperation opportunity on face mask trading, the Group granted a short-term bridging loan of one-month tenor of HK\$13 million to Debtor 1 on 29 April 2020 at an interest rate of 8% per annum. In view of the ongoing negotiation on potential cooperation, the loan had no collateral except a personal guarantee at the time of granting of loan. In July 2021, after the prolonged delay in repayment by Debtor 1, the Group further obtained inventory security over certain iron ore inventory located in Malaysia as additional collateral from Debtor 1. As at 30 September 2022, the outstanding amount including the accrued interest was approximately HK\$10.1 million.

Upon the management's individual assessment, having considered that (i) despite there were some repayments made of totally HK\$3 million so far, the Receivable 1 was past due and long outstanding without further significant repayment made, and (ii) the discussion and negotiation on the settlement arrangement with Debtor 1 were still in progress and no formal or legal binding settlement agreement was executed so far, accordingly, amid the uncertainty posed by the COVID-19 pandemic on the overall economic situation, the Group considered that it should adopt a more prudent and cautious approach by making specific provision for the full outstanding amount particularly for Debtor 1 of HK\$10.1 million as its full recoverability was in doubt. As at the date hereof, the Group is still in the ongoing process of discussing and negotiating with Debtor 1 for a mutually agreed repayment schedule with an aim to recover the outstanding receivable amounts.

For Debtor 2

Debtor 2, a business acquaintance of the Group and a party independent of the Company and its connected person, was a corporate which engaged in the manufacturing of face masks with a production line located in their factory in Tsuen Wan, Hong Kong. The Group was interested in investment in the face masks factory and production lines operated by Debtor 2 either by ways of direct investment or as joint venture. In about April 2020, due to the rapid expansion and further capital investment by Debtor 2 in the face masks production line, Debtor 2 asked the Group for a revolving loan facility for the purpose of working capital needs of the face mask factory only. Under the revolving loan arrangement, the granting of working capital advances would be subject to the Group's discretion and be made by instalments upon Debtor 2's request based on its actual expenditure and capital need. Should a solid investment plan between the Group and Debtor 2 materialize, it was anticipated that the loan advance would become part of the consideration for investment by the Group in the face mask factory. At the time during which COVID-19 was at peak and face masks was in high demand, the Group believed that such potential investment opportunity would be profitable to the Group, therefore, after checking the available bank balance of owner of Debtor 2, the Group granted to Debtor 2 the revolving facility with maximum limit of HK\$13 million on 22 May 2020.

As the face mask factory was still in its initial development and expansion stage and the revolving advances would be granted only by insignificant instalments on case-by-case basis, no collateral was obtained at the time of granting such facility as the initial loan amount was minimal. Also, there was no interest was charged at the time of entering into the revolving loan facility as the Group was aiming to secure the potential investment opportunity and cooperation with Debtor 2 in the face mask manufacturing business. As the loan advance amount was getting larger, the Group subsequently requested Debtor 2 for asset security over its factory production equipment and machinery as collateral to protect the Group's interests. As at 30 September 2022, the outstanding amount of Receivable 2 was approximately HK\$11.0 million.

Upon the management's individual assessment, having considered that (i) the delay in repayment by Debtor 2 as per agreed repayment schedule upon Group's repayment demand, (ii) the repayments made by Debtor 2 up to 30 September 2022 were not significant enough, and (iii) the discussion and negotiation on the settlement arrangement with Debtor 2 were still in progress and no formal or legal binding settlement agreement was executed as at 30 September 2022, accordingly, amid the uncertainty posed by the COVID-19 pandemic on the overall economic situation, the Group considered that it should adopt a more prudent and cautious approach by making specific provision for the full outstanding amount particularly for Debtor 2 of HK\$11.0 million as its full recoverability was in doubt. As at the date hereof, the Group is still in the ongoing process of discussing and negotiating with Debtor 2 for a mutually agreed repayment schedule with an aim to recover the outstanding receivable amounts as soon as possible.

For Debtor 3

Debtor 3 is an experienced investor and businessman and professional in corporate finance and management in both Hong Kong and China markets and is a party independent of the Company and its connected person. The Group has sought complimentary management advice and continuously accessed to various business contacts and opportunities through Debtor 3 for few years, which was considered useful and beneficial to the strategic development and expansion of the Group. The Group granted loan to Debtor 3 for his general working capital and investment purposes as he had short-term financing needs at the time of granting the loan.

The Company did not obtain collateral from Debtor 3 because he was business acquaintance at the time of loan granted and has been continuously providing complimentary management advice to the Company and provided the Group with access to business connections and opportunities. The Company was of the view that continuing relationship and business dealings with Debtor 3 would be sufficient to secure repayment of the loans. Besides, the Company was satisfied with the results of credit risk assessment on Debtor 3 and considered that he was creditworthy, in good financial conditions and had the ability to repay the loan and therefore did not require the loan secured by any collateral or guarantee.

As at 30 September 2022, the outstanding amount of Receivable 3 was approximately HK\$913,000 which has not yet matured, and a provision of HK\$144,000 was made for Receivable 3 based on an expected credit loss model as performed by an independent appraisal firm.

For Debtor 4

Debtor 4 is an experienced barrister in Hong Kong with strong network and professional knowledge and experience in the Hong Kong legal area and is a party independent of the Company and its connected person. The Group has continuously and frequently sought complimentary legal advice on ad-hoc basis for a long time from Debtor 4 for the Group's ordinary course of business. The Company considered that it would be beneficial to maintain a good business relationship with Debtor 4 in the long run. The Group granted loan to Debtor 4 for his general working capital and investment purposes as he had short-term financing needs at the time of granting the loan.

The Company did not obtain collateral from Debtor 4 because he was business acquaintance at the time of loan granted and has been continuously providing complimentary legal advice to the Company. The Company was of the view that continuing relationship and business dealings with Debtor 4 would be sufficient to secure repayment of the loans. Besides, the Company was satisfied with the results of credit risk assessment on Debtor 4 and considered that he was creditworthy, in good financial conditions and had the ability to repay the loan and therefore did not require the loan secured by any collateral or guarantee.

As at 30 September 2022, the outstanding amount of Receivable 4 was approximately HK\$214,000 which has not yet matured, and a provision of HK\$34,000 was made for Receivable 4 based on an expected credit loss model as performed by an independent appraisal firm.

Internal control policy and credit worthiness assessments before granting of loans

In order to minimise the credit risks and default risks associated with loan and other receivables, the Company has maintained an internal control policy and conducted credit assessment before entering into the transactions, even though money lending is not the ordinary business of the Group.

When potential borrowers approach the Company for a request on loan financing, borrower identification procedures will take place where the Company would require information and documents from the potential borrowers, including copies of identity card or passport for individual borrowers; and for corporate borrowers, the corporate documents including, where applicable, the certificate of incorporation, business registration certificate, registers of members and directors, articles of association, certificate of incumbency and/or certificate of good standing.

Loan transactions are not in the ordinary course of business of the Company in general. The Company is not registered as a money lender and therefore, does not have access to the credit check system in Hong Kong. However, the Company did conduct credit assessment using information and resources available to it. The Group has maintained strict credit assessment procedures to verify the credit worthiness of the borrowers, such as obtaining bank and security statements, income proof, property proof, their audited financial statements and/or the latest management account (if applicable) and conducting different searches such as bankruptcy or winding up search, land search and litigation search to ascertain if the borrowers have any prior legal cases in the past, which may cast doubt on credit worthiness and repayment ability. Since each loan is different and unique, the Group does not have any specific quantitative conditions or criteria imposed for approving each loan. Approvals on application for loans are decided on a case-by-case basis.

The existing borrowers are business partners or business acquaintances of the Company. In view of that, the Company already has certain understanding of the creditability and financial situation of the borrowers. In respect of business partners, the Company would ask for and review their business plan, budget and/or forecast; and would only enter into the loan transactions if the Company believes that the business plan is solid. In respect of business acquaintances, the Company would ask for assets list of borrowers and/or previous business records of borrowers before entering into the loan transaction.

As with the credit assessment of borrowers, guarantors who provide personal/corporate guarantee in favour of a loan are also required to meet the same basic eligibility and approval criteria, and will be required to go through the same verification and approval procedures.

In determining the terms of the loans, the Company will take into consideration factors such as the credit risks of the borrowers, their recoverability, the prevalent market interest rates and potential business relationship and cooperation in terms of benefit to the Group as a whole. Typically, higher interest rates will be charged for unsecured loans to justify the higher credit risk. In order to lower the Company's risk exposure, the requirement of security, personal or corporate guarantee would be taken into account before the Company would grant a loan.

The Company did not usually obtain collaterals from the borrowers which are either business partners or business acquaintances which have connections or business dealings with the Company because at the time of entering into the loan transactions, the Company was of the view that continuing relationship and business dealings with the borrowers would be sufficient to secure repayment of the loans and in certain cases, the Company has obtained the personal guarantee from the borrower as collateral.

The Group will also perform size test and connected transaction test for each of the loan transactions in order to have each loan transaction complying with the applicable rules and regulations under the Listing Rules.

After credit assessment, size test and connected transaction test and review of the loan applications by the relevant teams, loan documents will be prepared and the loans will be recommended to the Director for final approval.

Apart from the loan approval procedures, the Group has also established internal control measures to control its credit risk and manage its credit operations, which include regular analysing and reviewing of the Group's loan portfolio and compliance matters and monitoring of loan and interest repayment continuously and following up closely with its borrowers as to the deadlines in payment of interests or loans. The Group has also implemented debt recovery procedures to provide an orderly and established system for monitoring and recovering any late payment or default in payment of the customers. In cases of default and/or delinquent loans, the recovery procedure will commence and the Company will send reminder letters or emails to the borrowers for repayment. The Company will also arrange negotiations with the borrowers for a mutually agreed repayment schedule. The Company may also engage lawyers in advising on the actions to be taken to recover loans.

Actions taken to recover outstanding receivables

Regarding the recovery of the outstanding receivables, the Company has continuously issued demand letters or emails and regularly sent reminder messages through communication apps to respective debtors and has sought legal advice on possible actions can be taken by the Company. When the Company noticed the missing payments from the borrowers, in particular, the ones with larger amounts outstanding, the Company immediately took steps to ask for collaterals such as personal guarantees and pledges on assets from the borrowers. Also, the Company has been in constant contact with the borrowers to have updates as to their financial situation and the status of the collaterals.

Moreover, the Company has been continuously negotiating with the debtors for a mutually agreed repayment schedule and should such negotiation be smooth, the Company shall enter into a legally binding settlement agreement once the repayment schedule is agreed with an aim to fully recover the outstanding receivables from the debtors.

The Company will continuously monitor the repayment situation of those debtors and if necessary, the Company will seek further legal advice or will take legal actions against the debtors to recover the outstanding debts.

FINANCIAL REVIEW

Revenue

The Group recorded a revenue of approximately HK\$19.3 million for the Current Period, representing a decrease of approximately HK\$20.7 million or 51.8% as compared to the revenue of approximately HK\$40.0 million for the Prior Period.

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

	For the six months ended 30 September			
	2022		2021	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Building intelligence	3,975	20.6	13,565	34.0
Control system	14,666	75.9	26,385	66.0
Data centre	671	3.5	–	–
	<u>19,312</u>	<u>100.0</u>	<u>39,950</u>	<u>100.0</u>

The decrease in the Group's revenue for the Current Period was mainly attributable to the recent lockdown in China in the second quarter of 2022 due to the COVID-19 pandemic outbreak, which led to the suspension of the production activities and principal operation for both of our control system and building intelligence businesses, particularly for our principal operations which were located in the Eastern China region like Shanghai and Jiaying.

Cost of sales

Cost of sales of the Group consists of costs of raw materials, labour costs and manufacturing overheads. It decreased by approximately HK\$12.2 million or 43.0% from approximately HK\$28.4 million for the Prior Period to approximately HK\$16.2 million for the Current Period, which is in line with the decrease in sales for the Current Period.

Gross profit and gross profit margin

The Group's gross profit for the Current Period was approximately HK\$3.1 million, representing a decrease of approximately HK\$8.4 million or 73.0% from approximately HK\$11.5 million for the Prior Period, which is in line with the decrease in sales for the Current Period. The gross profit margin for the Current Period also decreased to 16.3% as compared to 28.9% for the Prior Period, which was mainly due to the comparatively higher fixed costs incurred due to lockdown in China and the cost increment caused by the overall surge in the worldwide pricing for its product components like integrated circuit chips, monitors and touch screens during the Current Period.

Other income

The Group's other income represents, among others, interest income, government grants and value-added taxes refund. The other income for the Current Period decreased to HK\$2.6 million (2021: HK\$5.2 million) due to the reduced value-added tax refunded for the Current Period and the net equipment rental and maintenance service income (2021: HK\$0.9 million) was reclassified and recognized as revenue under the new data centre business segment for the Current Period.

Other gains/(losses), net

The Group recorded net other gains of HK\$1.9 million for the Current Period mainly representing the gain on disposal amounted to HK\$1.8 million (2021: Nil) in relation to an office premise property situated in China at a consideration of RMB4.5 million, as compared to a net other loss of HK\$14,000 which represented the net exchange loss for the Prior Period.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately HK\$1.9 million or 65.5% from approximately HK\$2.9 million for the Prior Period to approximately HK\$1.0 million for the Current Period, which is in line with the decrease in sales for the Current Period.

Administrative and other operating expenses

The administrative and other operating expenses of the Group, which mainly represent the staff costs, depreciation of property, plant and equipment and right-of-use assets and legal and professional fees, which decreased by approximately HK\$3.0 million or 16.9% from approximately HK\$17.8 million for the Prior Period to approximately HK\$14.8 million for the Current Period mainly due to the reduced administrative expenses incurred during the lockdown in China and the stricter cost control implemented by the Group during the Current Period.

Research and development expenditure

The research and development expenditure of the Group reduced by approximately HK\$0.5 million or 25.0% from approximately HK\$2.0 million for the Prior Period to approximately HK\$1.5 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.

Reversal of/(allowance for) expected credit loss, net

During the Current Period, the Group recorded a net reversal of expected credit loss of HK\$3.1 million in relation to its trade receivables, loan and other receivables and amount due from an associate, as compared to a net allowance of HK\$1.4 million for the Prior Period. As at 30 September 2022, the Group's trade receivables amounted to HK\$35.8 million (31 March 2022: HK\$47.1 million) and the loan and other receivables amounted to HK\$53.6 million (31 March 2022: HK\$65.9 million), out of which amounts of HK\$23.3 million (31 March 2022: HK\$27.7 million) and HK\$38.4 million (31 March 2022: HK\$40.7 million) were considered impaired for each of the trade receivables and the loan and other receivables respectively. Apart from the specific full provision made according to the Group's individual assessment on long outstanding trade receivables overdue for over one year without repayment, the remaining receivables were assessed 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 represent 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\$2.0 million.

Loss for the period

The loss attributable to owners of the Company decreased by approximately HK\$0.8 million or 9.0% from approximately HK\$8.9 million for the Prior Period to approximately HK\$8.1 million for the Current Period, which was mainly due to the overall expenditure reduction under stricter cost control during the Current Period and the recognition of a reversal of expected credit loss for the Group's receivables of approximately HK\$3.1 million for the Current Period as compared to an allowance for expected credit loss of HK\$1.4 million provided 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 2022, the issued share capital of the Company was approximately HK\$313.1 million (31 March 2022: HK\$313.1 million), comprising 1,252,363,200 shares (the “**Shares**”) of the Company of nominal value of HK\$0.25 each (31 March 2022: 1,252,363,200 Shares).

On 13 January 2022, the Company entered into a placing agreement (the “**January 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 58,000,000 Placing Shares at the price (the “**January Placing Price**”) of HK\$0.25 per Placing Share to not less than six independent placees (the “**January Placing**”). The January Placing Price represented a premium of approximately 32.98% to the closing price of HK\$0.188 per Share as quoted on the Stock Exchange on 13 January 2022, being the date of the January Placing Agreement. The Board considered that the January 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 January Placing was in the interests of the Company and the Shareholders as a whole.

The completion of the January Placing took place on 25 January 2022 and an aggregate of 58,000,000 Placing Shares were issued and allotted by the Company to not less than six independent placees who were corporate or individual investors for cash at the January Placing Price of HK\$0.25 per Placing Share, representing approximately 4.63% of the then issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the January Placing. The aggregate nominal value of the Placing Shares issued and allotted pursuant to the January Placing was HK\$14.5 million. The net proceeds from the January Placing, after deduction of expenses related to the January Placing, amounted to approximately HK\$14.2 million, representing a net price of approximately HK\$0.245 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 2022, the net proceeds from the January Placing of approximately HK\$14.2 million were fully utilised as intended use previously disclosed by the Company 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>
Audit, legal and professional fees	1.1
Rental expenses and management fee	1.6
Staff salaries and pension contribution	2.0
Advance to an associate	2.3
Net increase in loan and other receivables	5.6
Other administrative and operating uses	<u>1.6</u>
Total	<u><u>14.2</u></u>

On 22 September 2022, the Company entered into another placing agreement (the “**September Placing Agreement**”) with the Placing Agent, pursuant to which the Company conditionally agreed to place, through the Placing Agent on a best effort basis, up to 49,200,000 Placing Shares at the price (the “**September Placing Price**”) of HK\$0.25 per Placing Share to independent placee(s) (the “**September Placing**”). The September Placing Price represented a premium of approximately 72.41% to the closing price of HK\$0.145 per Share as quoted on the Stock Exchange on 22 September 2022, being the date of the September Placing Agreement. The Board considered that the September 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 September Placing was in the interests of the Company and the Shareholders as a whole.

Subsequent to the financial reporting period end, the completion of the September Placing took place on 3 October 2022 and an aggregate of 49,200,000 Placing Shares were issued and allotted by the Company to an independent placee, namely Ms. Li Chung Man who was an individual investor and an independent third party, for cash at the September Placing Price of HK\$0.25 per Placing Share, representing approximately 3.78% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the September Placing. The aggregate nominal value of the Placing Shares issued and allotted pursuant to the September Placing was HK\$12.3 million. The net proceeds from the September Placing, after deduction of expenses related to the September Placing, amounted to approximately HK\$12.1 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.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 30 September 2022 was approximately 0.8 (31 March 2022: approximately 0.8). 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 2022 was 59% (31 March 2022: 70%).

Bank borrowings

As at 30 September 2022, the Group had outstanding bank borrowings of approximately HK\$60.9 million (31 March 2022: approximately HK\$72.3 million).

Pledge of assets

As at 30 September 2022, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK\$31.9 million (31 March 2022: approximately HK\$40.6 million) pledged against bank borrowings raised by the Group.

Contingent liabilities

As at 30 September 2022, the Group had no material contingent liabilities.

Major acquisition and disposal

Save as disclosed elsewhere in this announcement, the Group had no other major acquisition or disposal transactions during the six months ended 30 September 2022.

Significant capital expenditure for the period

Save as disclosed elsewhere in this announcement, the Group had no significant capital expenditure commitments as at 30 September 2022.

Risk of foreign exchange fluctuations

Substantially all transactions of the Group are denominated in Renminbi (“**RMB**”) 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 HK\$ during the Current 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 2022.

Employee and remuneration policy

As at 30 September 2022, the Group had 113 employees (31 March 2022: 123). For the six months ended 30 September 2022, the staff costs of the Group amounted to approximately HK\$9.5 million, representing an increase of approximately HK\$0.7 million or 8.0% as compared to approximately HK\$8.8 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, 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. As the Company’s previous share option scheme lapsed upon its expiry on 22 March 2022, the Company adopted a new share option scheme on 2 September 2022 and eligible participants of which may be granted the share options to subscribe for the shares of the Company. As at 30 September 2022, no share options were outstanding under any share option schemes of the Company.

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

On 16 November 2022, the Company proposed to conduct the capital reorganisation (the “**Capital Reorganisation**”), involving (i) the share consolidation (the “**Share Consolidation**”) whereby every five issued and unissued Shares of HK\$0.25 each will be consolidated into one consolidated share (the “**Consolidated Share**”) of HK\$1.25 each; (ii) the capital reduction (the “**Capital Reduction**”) whereby the par value of each issued Consolidated Share will be reduced from HK\$1.25 to HK\$0.1 by cancelling the paid up share capital to the extent of HK\$1.15 per issued Consolidated Share so that following such reduction, each issued Consolidated Share in the share capital of the Company shall become one new share (the “**New Share**”) with a par value of HK\$0.1 each; and (iii) the sub-division, immediately following the Share Consolidation and the Capital Reduction becoming effective, whereby each authorised but unissued Consolidated Share will be sub-divided into 12.5 New Shares with a par value of HK\$0.1 each. It was further proposed that the board lot size for trading in the Shares on the Stock Exchange would be changed from 3,200 Shares to 6,400 Consolidated Shares conditional upon the Share Consolidation becoming effective.

Upon the Capital Reduction becoming effective, the credit arising from the Capital Reduction will be applied towards offsetting the Company’s accumulated losses and the balance of any such credit remaining after offsetting the accumulated losses will be transferred to a distributable reserve account of the Company which may be applied by the Company in any manner as permitted by the applicable laws and the memorandum and articles of association of the Company and as the Board considers appropriate.

The Capital Reorganisation shall be conditional upon fulfillment of certain conditions including the passing of resolutions by the Shareholders at an extraordinary general meeting of the Company and a court order being made by the Grand Court of the Cayman Islands confirming the Capital Reduction. For details of the Capital Reorganisation and the proposed change in board lot size, please refer to the announcement of the Company dated 16 November 2022.

Save as disclosed above and the completion of the September Placing as disclosed in the paragraph headed “Capital structure, liquidity and financial resources” above, 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 2022 (six months ended 30 September 2021: 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 2022.

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 2022 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 2022.

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 30 August 2022 (the “**2022 AGM**”), Mr. Han Weining, the executive Director and chief executive officer of the Company, was appointed as the chairman of the 2022 AGM to answer and address questions raised by the Shareholders at the 2022 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 2022 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 2022.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

On 28 June 2022, the Board proposed to make certain amendments to the existing memorandum and articles of association of the Company (the “**Existing Memorandum and Articles**”) to be in line with the latest amendments to the Listing Rules, including the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022, and the applicable laws of the Cayman Islands (such proposed amendments to the Existing Memorandum and Articles are collectively referred to as the “**Proposed Amendments**”). In view of the number of the Proposed Amendments, the Board also proposed to adopt the new memorandum and articles of association of the Company (the “**New Memorandum and Articles**”) in substitution for, and to the exclusion of, the Existing Memorandum and Articles in their entirety. The Proposed Amendments and the proposed adoption of the New Memorandum and Articles became effective on 30 August 2022 upon the approval by the Shareholders by passing of a special resolution at the 2022 AGM. For details of the amendments, please refer to the announcement of the Company dated 28 June 2022 and the circular of the Company dated 29 July 2022.

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 2022 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 2022 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, 22 November 2022

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.