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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 2020**

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 2020 together with the comparative unaudited figures for the corresponding period in 2019. 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 2020

	Notes	For the six months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Continuing operations			
Revenue	4	26,367	32,626
Cost of sales		<u>(17,741)</u>	<u>(20,039)</u>
Gross profit		8,626	12,587
Other income	5	2,656	3,047
Other losses	5	(24)	(582)
Selling and distribution expenses		(1,621)	(2,234)
Administrative and other operating expenses		(18,040)	(20,824)
Research and development expenditure		(2,153)	(2,837)
Reversal/(allowance) of expected credit loss, net		<u>3,061</u>	<u>(5,112)</u>
Loss from operations		(7,495)	(15,955)
Finance costs	6(a)	(1,911)	(4,557)
Share of results of associates		<u>(72)</u>	<u>(12)</u>
Loss before taxation	6	(9,478)	(20,524)
Income tax	7	<u>966</u>	<u>1,057</u>
Loss for the period from continuing operations		(8,512)	(19,467)
Discontinued operations			
Loss for the period from discontinued operations	8	<u>—</u>	<u>(5,296)</u>
Loss for the period		<u>(8,512)</u>	<u>(24,763)</u>

		For the six months ended	
		30 September	
		2020	2019
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company:			
	– Continuing operations	(8,110)	(18,682)
	– Discontinued operations	<u>–</u>	<u>(5,296)</u>
		(8,110)	(23,978)
Loss for the period attributable to non-controlling interests:			
	– Continuing operations	(402)	(785)
	– Discontinued operations	<u>–</u>	<u>–</u>
		(402)	(785)
		<u>(8,512)</u>	<u>(24,763)</u>
		<i>HK cent</i>	<i>HK cents</i>
			(Restated)
Loss per share	<i>10</i>		
For continuing and discontinued operations			
	– Basic	<u>(0.79)</u>	<u>(2.79)</u>
	– Diluted	<u>(0.79)</u>	<u>(2.79)</u>
For continuing operations			
	– Basic	<u>(0.79)</u>	<u>(2.17)</u>
	– Diluted	<u>(0.79)</u>	<u>(2.17)</u>

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

For the six months ended 30 September 2020

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(8,512)	(24,763)
Other comprehensive income/(loss) for the period		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	61	1,818
Reclassification adjustment of exchange differences on translation upon disposal of subsidiaries	<u>—</u>	<u>(13,053)</u>
Other comprehensive income/(loss) for the period (net of tax)	<u>61</u>	<u>(11,235)</u>
Total comprehensive loss for the period	<u>(8,451)</u>	<u>(35,998)</u>
Attributable to:		
Owners of the Company	(8,049)	(34,842)
Non-controlling interests	<u>(402)</u>	<u>(1,156)</u>
	<u>(8,451)</u>	<u>(35,998)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		As at 30 September 2020	As at 31 March 2020
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		36,285	35,785
Right-of-use assets		15,309	10,081
Intangible assets		1,090	4,536
Goodwill		47,472	47,472
Interests in associates	11	55,928	–
Deposits and prepayments	12	1,240	139
		157,324	98,013
Current assets			
Inventories		40,810	45,811
Trade and other receivables	12	75,402	106,154
Amount due from an associate		1,670	–
Cash and cash equivalents		14,005	46,310
		131,887	198,275
Current liabilities			
Trade and other payables	13	29,841	31,024
Contract liabilities		24,724	22,283
Bank and other borrowings		61,661	66,139
Lease liabilities		3,257	1,724
		119,483	121,170
Net current assets		12,404	77,105
Total assets less current liabilities		169,728	175,118

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Non-current liabilities		
Lease liabilities	4,676	649
Deferred tax liabilities	<u>298</u>	<u>1,264</u>
	<u>4,974</u>	<u>1,913</u>
Net assets	<u><u>164,754</u></u>	<u><u>173,205</u></u>
EQUITY		
Share capital	258,091	258,091
Reserves	<u>(100,572)</u>	<u>(92,523)</u>
Equity attributable to owners of the Company	157,519	165,568
Non-controlling interests	<u>7,235</u>	<u>7,637</u>
Total equity	<u><u>164,754</u></u>	<u><u>173,205</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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 Units 306-307, 3/F, Wing On Plaza, 62 Mody Road, Tsim Sha Tsui, 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.

During the six months ended 30 September 2019, the Group discontinued the communication technology business in the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies (note 8).

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2020.

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 2020 for the preparation of the Group's condensed consolidated financial statements. The application of the new and amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior interim periods and/or on the disclosures set out in the condensed consolidated financial statements.

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

3. SEGMENT REPORTING

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

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

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

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

During the six months ended 30 September 2019, the Group discontinued the operation of its communication technology business. The segment information does not include any amounts for this discontinued operation.

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 and other borrowings and lease liabilities managed directly by the segments with the exception of corporate liabilities which are unallocated to an individual reportable segment.

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

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

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

Segment revenue and results

Continuing operations

	For the six months ended 30 September 2020		
	Building intelligence <i>HK\$'000</i> (Unaudited)	Control system <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from external customers	11,384	14,983	26,367
Inter-segment revenue	<u>1,413</u>	<u>772</u>	<u>2,185</u>
Reportable segment revenue	<u><u>12,797</u></u>	<u><u>15,755</u></u>	<u><u>28,552</u></u>
Reportable segment loss (Adjusted EBIT)	(2,459)	(1,829)	(4,288)
Interest income			368
Finance costs			(1,911)
Share of results of associates			(72)
Unallocated corporate expenses			<u>(3,575)</u>
Consolidated loss before taxation			<u><u>(9,478)</u></u>

	For the six months ended 30 September 2019		
	Building intelligence <i>HK\$'000</i> (Unaudited)	Control system <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from external customers	18,059	14,567	32,626
Inter-segment revenue	<u>2,387</u>	<u>3,905</u>	<u>6,292</u>
Reportable segment revenue	<u><u>20,446</u></u>	<u><u>18,472</u></u>	<u><u>38,918</u></u>
Reportable segment loss (Adjusted EBIT)	(4,317)	(4,948)	(9,265)
Interest income			1,672
Finance costs			(4,557)
Share of results of associates			(12)
Unallocated corporate expenses			<u>(8,362)</u>
Consolidated loss before taxation			<u><u>(20,524)</u></u>

Segment assets and liabilities

	Building intelligence		Control system		Total	
	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Assets						
Reportable segment assets	183,538	121,659	74,537	76,107	258,075	197,766
Elimination of inter-segment balances					(67,453)	–
					190,622	197,766
Unallocated corporate assets					98,589	98,522
Consolidated total assets					<u>289,211</u>	<u>296,288</u>
Liabilities						
Reportable segment liabilities	135,187	101,550	81,443	16,083	216,630	117,633
Elimination of inter-segment balances					(100,341)	–
					116,289	117,633
Deferred tax liabilities					298	1,264
Unallocated corporate liabilities					7,870	4,186
Consolidated total liabilities					<u>124,457</u>	<u>123,083</u>

4. REVENUE

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

	For the six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Building intelligence	11,384	18,059
Control system	14,983	14,567
	26,367	32,626

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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
PRC	25,789	32,309
Overseas	578	317
	26,367	32,626

5. OTHER INCOME AND OTHER LOSSES

	For the six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Other income		
Interest income on bank deposits	38	7
Interest income on loan receivables	330	1,665
Value-added taxes refund (<i>note</i>)	312	1,005
Sundry income	<u>1,976</u>	<u>370</u>
	<u>2,656</u>	<u>3,047</u>
Other losses		
Net exchange loss	(24)	(556)
Net loss on disposal of property, plant and equipment	<u>-</u>	<u>(26)</u>
	<u>(24)</u>	<u>(582)</u>
	<u><u>2,632</u></u>	<u><u>2,465</u></u>

Note: Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

(a) Finance costs

	For the six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Interest expense on bank and other borrowings	1,748	4,440
Finance charges on lease liabilities	163	117
	<u>1,911</u>	<u>4,557</u>

(b) Other items

	For the six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Cost of inventories recognised as expense	17,152	19,427
Amortisation of intangible assets	3,446	3,862
Depreciation of property, plant and equipment	1,723	1,861
Depreciation of right-of-use assets	1,517	1,289

7. INCOME TAX

	For the six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Current tax		
PRC Enterprise Income Tax (“EIT”) (<i>note d</i>)	–	16
Deferred tax		
Reversal of temporary differences	<u>(966)</u>	<u>(1,073)</u>
	<u>(966)</u>	<u>(1,057)</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) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the period.
- (d) The PRC subsidiaries of the Group are subject to PRC EIT at a rate of 25% (2019: 25%).
- (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.

8. DISCONTINUED OPERATIONS

On 23 August 2019, the Group disposed of its entire equity interests in Synertone Communication Technology Limited and Thrive United Holdings Limited to an independent third party for cash consideration of HK\$7,700,000 and US\$1 (equivalent to approximately HK\$8) respectively, and thereafter the Group ceased the operation of its communication technology business.

Synertone Communication Technology Limited and Thrive United Holdings Limited carried out the Group's communication technology business, which was discontinued by the Group along with the disposal.

The results of the communication technology business for the period from 1 April 2019 to 23 August 2019 have been presented as a discontinued operation in the Group's condensed consolidated statement of profit or loss for the six months ended 30 September 2019.

	Period from 1 April 2019 to 23 August 2019 <i>HK\$'000</i> (Audited)
Revenue	–
Cost of sales	–
	<hr/>
Gross profit	–
Other income	1,094
Other gains and losses	(5)
Administrative and other operating expenses	(1,823)
Research and development expenditure	(1,996)
	<hr/>
Loss from operations	(2,730)
Finance costs	(82)
	<hr/>
Loss before taxation	(2,812)
Income tax expense	–
	<hr/>
Loss for the period	(2,812)
Loss on disposal of subsidiaries	(2,484)
	<hr/>
Loss for the period from discontinued operations	<u>(5,296)</u>

Loss for the period from discontinued operations have been arrived at after charging/(crediting):

	For the six months ended 30 September 2019 <i>HK\$'000</i> (Audited)
Government grants (<i>note</i>)	(1,094)
Depreciation of property, plant and equipment	1,489
Depreciation of right-of-use assets	587
Net exchange loss	<u>5</u>

Note: These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to “hi-tech enterprise”.

The analysis of assets and liabilities of Synertone Communication Technology Limited and Thrive United Holdings Limited at the date of disposal were as follows:

	<i>HK\$'000</i> (Audited)
Property, plant and equipment	6,498
Right-of-use assets	3,110
Inventories	3,049
Trade and other receivables	19,818
Cash and cash equivalents	171
Trade and other payables	(5,198)
Lease liabilities	(4,113)
Deferred tax liabilities	<u>(98)</u>
	23,237
Release of translation reserve	(13,053)
Loss on disposal of subsidiaries	<u>(2,484)</u>
	20,700
Total consideration	<u>7,700</u>

9. DIVIDENDS

During the six months ended 30 September 2020, 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 2019: Nil).

10. LOSS PER SHARE

For continuing and discontinued operations

(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\$8,110,000 (six months ended 30 September 2019: HK\$23,978,000) and the weighted average number of 1,032,363,000 ordinary shares (six months ended 30 September 2019: 860,363,000 ordinary shares, restated as to reflect the effect of the share consolidation of the Company on 24 March 2020) 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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company for the purpose of diluted loss per share	<u>(8,110)</u>	<u>(23,978)</u>
	<i>'000</i>	<i>'000</i> (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>1,032,363</u>	<u>860,363</u>

The weighted average number of ordinary shares for the six months ended 30 September 2019 has been adjusted and restated for the share consolidation became effective on 24 March 2020.

For continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	(8,110)	(23,978)
Add: Loss for the period from discontinued operations	<u>–</u>	<u>5,296</u>
Loss for the purpose of basic and diluted loss per share from continuing operations	<u>(8,110)</u>	<u>(18,682)</u>

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

For discontinued operations

Basic and diluted loss per share for the discontinued operations is HK\$Nil per share (six months ended 30 September 2019: HK0.62 cent per share, restated as to reflect the effect of the share consolidation of the Company on 24 March 2020), based on the loss for the period from discontinued operations of HK\$Nil (six months ended 30 September 2019: HK\$5,296,000) and the denominators detailed above for both basic and diluted loss per share.

11. 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 2020 HK\$'000 (Unaudited)
Cost of investment in an associate, unlisted	56,000
Share of results of associates	<u>(72)</u>
	<u>55,928</u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade receivables (<i>notes a, b</i>)	43,607	52,127
Less: Loss allowance (<i>note c</i>)	<u>(14,461)</u>	<u>(16,027)</u>
	<u>29,146</u>	<u>36,100</u>
Bill receivables	164	1,404
Loan receivables (<i>note d</i>)	13,738	55,575
Other receivables	16,701	8,537
Prepaid value-added and other taxes	16	120
Deposits and prepayments	18,231	7,338
Less: Loss allowance	<u>(1,354)</u>	<u>(2,781)</u>
	<u>47,496</u>	<u>70,193</u>
	<u>76,642</u>	<u>106,293</u>

Reconciliation to the condensed consolidated statement of financial position:

Non-current	1,240	139
Current	<u>75,402</u>	<u>106,154</u>
	<u><u>76,642</u></u>	<u><u>106,293</u></u>

Notes:

- (a) For the six months ended 30 September 2020, 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 2020: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2020: 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 aging analysis of trade receivables based on invoice date is as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
0-60 days	3,938	9,451
61-90 days	1,384	3,195
91-180 days	2,071	4,546
181-365 days	5,460	3,198
Over 365 days	<u>30,754</u>	<u>31,737</u>
	43,607	52,127
Less: Loss allowance	<u>(14,461)</u>	<u>(16,027)</u>
	<u><u>29,146</u></u>	<u><u>36,100</u></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 ECLs for trade receivables as at 30 September 2020:

	Average loss rate		Loss allowance	
	30 September 2020 %	31 March 2020 %	30 September 2020 HK\$’000	31 March 2020 HK\$’000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
0–60 days	15.63%	15.63%	615	1,477
61–90 days	22.75%	22.75%	315	727
91–180 days	28.02%	28.02%	580	1,274
181–365 days	33.46%	33.46%	1,827	1,070
Over 365 days	36.17%	36.17%	11,124	11,479
			<u>14,461</u>	<u>16,027</u>

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 6% to 8% per annum (31 March 2020: 6% per annum) and repayable within one year.

13. TRADE AND OTHER PAYABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade payables	6,954	12,469
Bill payables	3,393	4,487
Accrued salaries	724	1,185
Accrued expenses and other payables	18,629	12,802
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	29,700	30,943
Other tax payables	141	81
	<hr/>	<hr/>
	29,841	31,024
	<hr/> <hr/>	<hr/> <hr/>

The aging analysis of trade payables based on invoice date is as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
0–60 days	957	4,095
61–90 days	883	246
91–180 days	655	3,437
181–365 days	648	872
Over 365 days	3,811	3,819
	<hr/>	<hr/>
	6,954	12,469
	<hr/> <hr/>	<hr/> <hr/>

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, Chongqing, Chengdu, Wuhan, Guangzhou, Changsha and Hangzhou.

During the six months ended 30 September 2020 (the “**Current Period**”), the Group's continuing 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.

During the Current Period, the external revenue recorded by the Group's control system segment was HK\$15.0 million (2019: HK\$14.6 million), which was maintained at a stable level as compared to the same period in 2019. The segment loss for the Current Period decreased to HK\$1.8 million (2019: HK\$4.9 million) which was mainly attributable to the reduced expected credit loss provision for receivables during Current Period of approximately HK\$0.1 million (2019: HK\$3.3 million) as no significant additional provision was considered necessary after assessment by the Group's management.

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 of the Group's "MOX" brand video intercom and surveillance system products dropped as a result of the negative impact of the COVID-19 epidemic on the overall demand of the industry. Accordingly, the external revenue of the Group's building intelligence segment significantly reduced to HK\$11.4 million for the Current Period (2019: HK\$18.1 million). However, the loss recorded by the building intelligence segment was reduced to HK\$2.5 million for the Current Period (2019: HK\$4.3 million) mainly due to a reversal of expected credit loss provision for receivables of approximately HK\$2.0 million was recorded during the Current Period as compared to a provision of expected credit loss of HK\$1.8 million for the same period last year. The adjusted EBITDA, being the earnings before interest, taxes, depreciation and amortisation and excluding any reversal or allowance of expected credit loss, recorded for the Current Period was HK\$662,000, which represents a positive indicator on the operating performance and profitability of the Group's building intelligence business.

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, Israel and Thailand. Its suite of home automation products are proven, and leading-edge, creating exciting growth potential in new and existing dwellings markets.

New business in face masks and respirator masks operations

In May 2020, the Group entered into a sale and purchase trading transaction for respirator masks with amounts of US\$2.53 million and US\$1.87 million respectively. As at the date hereof, the transaction is still in progress due to the delay in the international cargo delivery and custom clearance under the adverse impact of COVID-19 epidemic on the international trading policies, which have affected the timely shipment of products to the customer according to the original delivery schedule. The Group shall continue to put effort to achieve the product shipment and the transaction completion upon which it is expected to represent a new business segment of the Group for the coming financial year.

Investment in associate engaging in the charging station leasing operations

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

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

Business prospects

The Board remains optimistic on the performance of the Group's businesses in both control system and building intelligence. Following the stabilized situation of the COVID-19 epidemic in China since the second quarter of 2020, the Group's operations, particularly the building intelligence operations, have gradually resumed and recovered. The Board believes that the performance of our "MOX" brand building intelligence products will remain competitive under the strong real estate market situation in China currently, which has secured a sustainable and stable demand for our building intelligence products in the China market.

For the face masks and respirator masks operations, the Group will keep its effort to proceed to the completion of the respirator masks trading transaction entered into by the Group in May 2020. It is the intention of the Group to initiate the new respirator face masks business in the future given the fact that the COVID-19 epidemic outbreak continues to spread in many foreign countries while there is a persistent shortage of medical supplies particularly the respirator masks. The Group will closely monitor the future development of the epidemic situation and will consider to further expand and invest in this new business segment in response to the exigent demand for face masks with the primary objective to save lives.

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 proposed acquisition of 100% equity interest in Wellington Financial Limited, which is principally engaged in securities trading and brokerage, in April 2020 and the acquisition of 20% equity interest in Iogo Workshop, which is principally engaged in the leasing of charging stations for mobile devices, in June 2020. 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 from its continuing operations of approximately HK\$26.4 million for the Current Period, representing a decrease of approximately HK\$6.2 million or 19.0% as compared to the revenue of approximately HK\$32.6 million for the six months ended 30 September 2019.

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			
	2020		2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Building intelligence	11,384	43.2	18,059	55.4
Control system	14,983	56.8	14,567	44.6
	<u>26,367</u>	<u>100.0</u>	<u>32,626</u>	<u>100.0</u>

The decrease in the Group's revenue from continuing operations for the Current Period was mainly attributable to the decrease in sales of building intelligence products caused by the deferral of market demand by customers in China due to COVID-19 epidemic.

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\$2.3 million or 11.5% from approximately HK\$20.0 million for the six months ended 30 September 2019 to approximately HK\$17.7 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 from continuing operations for the Current Period was approximately HK\$8.6 million, representing a decrease of approximately HK\$4.0 million or 31.7% from approximately HK\$12.6 million for the six months ended 30 September 2019, which is in line with the decrease in sales for the Current Period. The gross profit margin for the Current Period dropped to 32.7% (for the six months ended 30 September 2019: 38.6%) mainly due to the relatively higher fixed costs incurred as a result of the production cut in response to the prevailing market demand for the Group's products.

Other income and other losses

For the Current Period, the Group recorded the other income and other losses with a total amount of HK\$2.6 million, which was at a similar level as for the period ended 30 September 2019 of HK\$2.5 million. The amount mainly comprised the interest income, exchange gain or loss and value-added taxes refund.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately HK\$0.6 million or 27.3% from approximately HK\$2.2 million for the six months ended 30 September 2019 to approximately HK\$1.6 million for the Current Period as a results of the decrease in sales activities during the Current Period.

Administrative and other operating expenses

The administrative and other operating expenses of the Group from continuing operations 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. The expenses slightly decreased by approximately HK\$2.8 million or 13.5% from approximately HK\$20.8 million for the six months ended 30 September 2019 to approximately HK\$18.0 million for the Current Period, mainly attributable to the adoption of stricter control over administrative and operating expenses by the management during the Current Period.

Research and development expenditure

The research and development expenditure of the Group from continuing operations reduced by approximately HK\$0.6 million or 21.4% from approximately HK\$2.8 million for the six months ended 30 September 2019 to approximately HK\$2.2 million for the Current Period as a result of the stricter cost control adopted by the Group during the Current Period.

Reversal/(allowance) of expected credit loss, net

During the Current Period, the Group recorded a net reversal of expected credit loss of HK\$3.1 million for its continuing operations in relation to its trade receivables and loan and other receivables, as compared to a net allowance of HK\$5.1 million for the six months ended 30 September 2019. As at 30 September 2020, the Group's trade receivables amounted to HK\$43.6 million (31 March 2020: HK\$52.1 million) and the loan and other receivables amounted to HK\$30.4 million (31 March 2020: HK\$64.1 million), out of which amounts of HK\$14.5 million (31 March 2020: HK\$16.0 million) and HK\$1.4 million (31 March 2020: HK\$2.8 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 from continuing operations was approximately HK\$1.9 million for the Current Period, mainly representing interest expense on bank and other borrowings. The decrease in finance costs of approximately HK\$2.7 million or 58.7% from approximately HK\$4.6 million for the six months ended 30 September 2019 was due to the decrease in average balance of bank and other borrowings of the Group during the Current Period.

Loss from discontinued operations for the six months ended 30 September 2019

During the six months ended 30 September 2019, the Group discontinued its communication technology business in August 2019 through disposals of Synertone Communication Technology Limited and Thrive United Holdings Limited. The loss from the Group's communication technology business up to the date of disposal completion amounted to HK\$5.3 million was recorded and classified as loss from discontinued operations of the Group for the six months ended 30 September 2019.

Loss for the period

The Group recorded a loss attributable to owners of the Company of approximately HK\$8.1 million for the Current Period mainly due to the negative impact of the COVID-19 epidemic on the market demand in China. However, the performance was improved as compared to the loss attributable to owners of the Company of approximately HK\$24.0 million recorded for the six months ended 30 September 2019 mainly due to a net reversal of expected credit loss provision for receivables of approximately HK\$3.1 million was recorded during the Current Period as compared to a net provision of expected credit loss of HK\$5.1 million for the same period last year.

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 2020, the issued share capital of the Company was approximately HK\$258.1 million (at 31 March 2020: HK\$258.1 million), comprising 1,032,363,200 shares (the “**Shares**”) of the Company of nominal value of HK\$0.25 each (at 31 March 2020: 1,032,363,200 Shares).

On 19 February 2020, the Company issued and allotted 860,000,000 new shares (the “**Subscription Shares**”) of the Company to Mr. Lam Siu Sun for cash at subscription price of HK\$0.1 per Subscription Share (the “**Subscription**”). The net proceeds from the Subscription, after deduction of expenses, amounted to approximately HK\$85,900,000, which were intended to be used as the Group’s general working capital and/or for future investment opportunities of the Group. As at 31 March 2020, the unused net proceeds from the Subscription were approximately HK\$58.3 million, which have been fully utilized during the Current Period as intended use for the Group’s general working capital and/or for investment opportunities of the Group with details as follows:

Description of use of proceeds	Amount <i>(in HK\$ million)</i>
Acquisition of interests in an associate	15.8
Deposit paid for acquisition of a brokerage business	1.3
Legal and professional fees	2.6
Net increase in receivables	24.1
New office refurbishment and decoration	1.8
Other administrative and operating uses	1.5
Rental expenses, deposits and management fee	1.3
Staff salaries	1.9
Trading deposit paid for respirator masks transaction	8.0
	<hr/>
Total	<u>58.3</u>

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 30 September 2020 was approximately 1.1 (31 March 2020: approximately 1.6). Gearing ratio calculated by total borrowings (comprising bank and other borrowings and lease liabilities) net of cash and cash equivalents, over total equity as at 30 September 2020 was 34% (31 March 2020: 13%).

Bank and other borrowings

As at 30 September 2020, the Group had outstanding bank and other borrowings of approximately HK\$61.7 million (31 March 2020: approximately HK\$66.1 million).

Pledge of assets

As at 30 September 2020, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK\$39.4 million (31 March 2020: approximately HK\$40.6 million) pledged against bank borrowings raised by the Group.

Contingent liabilities

As at 30 September 2020, the Group had no material contingent liabilities.

Major acquisition and disposal

On 17 April 2020, the Company, as purchaser, entered into a sale and purchase agreement (the “**Wellington Agreement**”) with Wellington Investments Group Limited, as vendor, pursuant to which the Company agreed to acquire the entire equity interests in Wellington Financial Limited, a company principally engaged in securities trading and brokerage services in Hong Kong, at a consideration of HK\$2.5 million plus the net asset value amount to be determined in accordance with the terms of the Wellington Agreement. According to the terms of the Wellington Agreement, the total consideration for the transaction shall not exceed HK\$16 million. The transaction has not yet completed as at the date of this announcement and it is expected that the capital commitment upon completion of the transaction is at approximately HK\$13,373,000.

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 at a total consideration of HK\$56 million. Iogo Workshop, together with its subsidiaries, 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 in June 2020 and thereafter, Iogo Workshop became an associate of the Company.

Save as disclosed above, the Group has no other major acquisition or disposal transactions during the six months ended 30 September 2020.

Significant capital expenditure for the period

Save as disclosed above, the Group has no significant capital expenditure commitments as at 30 September 2020.

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 2020.

Employee and remuneration policy

As at 30 September 2020, the Group had 142 employees (31 March 2020: 148). For the six months ended 30 September 2020, the staff costs of the Group amounted to approximately HK\$7.7 million, representing a decrease of approximately HK\$5.8 million or 43.0% as compared to approximately HK\$13.5 million for the corresponding period last year, mainly due to the reduced number of the Group’s senior executive personnel and the exclusion of staff costs arising from the disposed communication technology business 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 2020, no share options were outstanding under the share option scheme.

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

EVENTS AFTER THE REPORTING PERIOD

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

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: 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 2020.

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 2020 apart from code provision E.1.2 as disclosed below.

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 still vacant as at the date of the annual general meeting held on 28 August 2020 (the “**2020 AGM**”), Mr. Han Weining, the executive Director and chief executive officer of the Company, was appointed as the chairman of the 2020 AGM to answer and address questions raised by the Shareholders at the 2020 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 2020 AGM. Therefore, Mr. Han Weining was considered suitable and appropriate to act as the chairman of the 2020 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 2020.

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 2020 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 2020 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, 27 November 2020

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