



協同通信集團有限公司
Synertone Communication Corporation

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1613

2019
INTERIM REPORT

CONTENTS

	Page
Corporate Information	2
Condensed Consolidated Statement of Profit or Loss	4
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Statement of Cash Flows	10
Notes to the Condensed Consolidated Financial Statements	12
Management Discussion and Analysis	46
Other Information	54

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chit On (*Chairman*)
Mr. Han Weining (*Chief Executive Officer*)

Independent Non-executive Directors

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

COMMITTEES

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

COMPANY SECRETARY

Mr. Tse Kam Fai, *FCIS, FCS, MHKIoD*

AUTHORISED REPRESENTATIVES

Mr. Wong Chit On
Mr. Lam Ying Hung Andy
(alternate to Mr. Wong Chit On)
Mr. Tse Kam Fai

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

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

WEBSITE

www.synertone.net

STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1613

CORPORATE INFORMATION *(Continued)*

PRINCIPAL BANKERS

HONG KONG

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

PEOPLE'S REPUBLIC OF CHINA

Bank of China
China Construction Bank
Agricultural Bank of China
Industrial and Commercial Bank of China
China Merchants Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House—3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

Alvan Liu & Partners
25 & 26th Floors
Central 88
88 Des Voeux Road Central
Hong Kong

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Synertone Communication Corporation (the “**Company**”, together with its subsidiaries, the “**Group**”) hereby presents the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2019, together with the comparative figures for the corresponding period in 2018, as follows:

		For the six months ended	
		30 September	2018
	NOTES	2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
			(Restated)
Continuing operations			
Revenue	4	32,626	36,799
Cost of sales		(20,039)	(21,934)
Gross profit		12,587	14,865
Other income	5	3,047	2,354
Other losses	5	(582)	(1,986)
Selling and distribution expenses		(2,234)	(3,189)
Administrative and other operating expenses		(20,824)	(25,929)
Research and development expenditure		(2,837)	(4,694)
Impairment loss (recognised)/reversed in respect of trade receivables		(5,112)	3,482
Impairment loss of goodwill		–	(1,500)
Loss from operations		(15,955)	(16,597)
Finance costs	6(a)	(4,557)	(5,934)
Share of results of an associate		(12)	–
Loss before taxation	6	(20,524)	(22,531)
Income tax credit	7	1,057	1,249
Loss for the period from continuing operations		(19,467)	(21,282)
Discontinued operations			
Loss for the period from discontinued operations	8	(5,296)	(36,451)
Loss for the period		(24,763)	(57,733)

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

For the six months ended 30 September 2019

	For the six months ended 30 September	
NOTE	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited) (Restated)
Loss for the period attributable to owners of the Company:		
– Continuing operations	(18,682)	(20,717)
– Discontinued operations	(5,296)	(36,451)
	(23,978)	(57,168)
Loss for the period attributable to non-controlling interests:		
– Continuing operations	(785)	(565)
– Discontinued operations	–	–
	(785)	(565)
	(24,763)	(57,733)
	HK cents	HK cents (Restated)
Loss per share	<i>10</i>	
For continuing and discontinued operations		
– Basic	(0.56)	(1.45)
– Diluted	(0.56)	(1.45)
For continuing operations		
– Basic	(0.43)	(0.53)
– Diluted	(0.43)	(0.53)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	For the six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(24,763)	(57,733)
Other comprehensive loss for the period		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	1,818	(4,358)
Reclassification adjustment of exchange differences on translation upon disposal of subsidiaries	(13,053)	–
Other comprehensive loss for the period (net of tax)	(11,235)	(4,358)
Total comprehensive loss for the period	(35,998)	(62,091)
Attributable to:		
Owners of the Company	(34,842)	(60,563)
Non-controlling interests	(1,156)	(1,528)
	(35,998)	(62,091)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	37,840	49,584
Right-of-use assets		11,330	–
Prepaid lease payments		–	8,297
Intangible assets		8,362	12,755
Goodwill	12	48,087	50,566
Interest in an associate		–	467
		105,619	121,669
Current assets			
Inventories		40,875	41,938
Trade and other receivables	13	109,875	131,095
Prepaid lease payments		–	201
Cash and cash equivalents		4,875	10,599
		155,625	183,833
Current liabilities			
Trade and other payables	14	57,581	57,648
Bank and other borrowings			
– due within one year	15	95,842	104,221
Lease liabilities – due within one year		2,170	–
Finance leases payable		–	551
Amount due to a director	20(a)	1	1
Current taxation		–	–
		155,594	162,421

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 September 2019

	<i>NOTE</i>	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Net current assets		31	21,412
Total assets less current liabilities		105,650	143,081
Non-current liabilities			
Lease liabilities – due after one year		1,384	–
Finance leases payable		–	124
Deferred tax liabilities		2,327	3,646
		3,711	3,770
Net assets		101,939	139,311
Capital and reserves			
Share capital	16	215,091	215,091
Reserves		(119,912)	(83,696)
Equity attributable to owners of the Company		95,179	131,395
Non-controlling interests		6,760	7,916
Total equity		101,939	139,311

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Warrant reserve HK\$'000	Convertible bonds reserve HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Equity HK\$'000
At 1 April 2018 (Audited)	167,440	745,507	10,472	6,600	3,481	(90)	40,737	(9,996)	8,020	(1,138,261)	(166,090)	11,721	(154,369)
Impact on initial application of HKFRS 9	-	-	-	-	-	-	-	-	-	(7,700)	(7,700)	(663)	(8,363)
At 1 April 2018 (Adjusted)	167,440	745,507	10,472	6,600	3,481	(90)	40,737	(9,996)	8,020	(1,145,961)	(173,790)	11,058	(162,732)
Loss for the period	-	-	-	-	-	-	-	-	-	(57,168)	(57,168)	(565)	(57,733)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(3,395)	-	(3,395)	(963)	(4,358)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(3,395)	(57,168)	(60,563)	(1,528)	(62,091)
Lapse of share options	-	-	(152)	-	-	-	-	-	-	152	-	-	-
Issue of new shares (Note 16)	37,651	19,590	-	-	-	-	-	-	-	-	52,241	-	52,241
Share issuance costs	-	(48)	-	-	-	-	-	-	-	-	(48)	-	(48)
Issue of convertible bonds	-	-	-	-	5,568	-	-	-	-	-	5,568	-	5,568
Issue of new shares upon conversion of convertible bonds	15,000	36,033	-	-	(9,049)	-	-	-	-	-	41,984	-	41,984
At 30 September 2018 (Unaudited)	215,091	801,082	10,320	6,600	-	(90)	40,737	(9,996)	4,625	(1,202,977)	(134,608)	9,530	(725,078)
At 1 April 2019 (Audited)	215,091	801,082	-	6,600	-	(90)	30,121	(9,996)	4,793	(916,206)	131,395	7,916	139,311
Impact on initial application of HKFRS 16 (Note 2)	-	-	-	-	-	-	-	-	-	(1,374)	(1,374)	-	(1,374)
At 1 April 2019 (Adjusted)	215,091	801,082	-	6,600	-	(90)	30,121	(9,996)	4,793	(917,580)	130,021	7,916	137,937
Loss for the period	-	-	-	-	-	-	-	-	-	(23,978)	(23,978)	(785)	(24,763)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(10,864)	-	(10,864)	(371)	(11,235)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(10,864)	(23,978)	(34,842)	(1,156)	(35,998)
Lapse of warrants	-	-	-	(6,600)	-	-	-	-	-	6,600	-	-	-
Disposal of subsidiaries (Note 18)	-	-	-	-	-	-	(30,121)	-	-	30,121	-	-	-
At 30 September 2019 (Unaudited)	215,091	801,082	-	-	-	(90)	-	(9,996)	(6,071)	(904,837)	95,179	6,760	101,939

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	For the six months ended	
	30 September	
NOTES	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	6,220	5,987
Investing activities		
Additions of property, plant and equipment	(1,787)	(962)
Acquisition of a subsidiary	17 (440)	–
Disposal of subsidiaries	18 (171)	–
Interest received	7	501
Loans to independent third parties	–	(50,000)
Repayment of loan to an independent third party	–	20,000
Other investing cash flows	521	292
Net cash used in investing activities	(1,870)	(4,422)
Financing activities		
Proceeds from bank and other borrowings	48,096	51,309
Repayment of bank and other borrowings	(51,503)	(132,396)
Interest paid	(4,440)	(11,690)
Payment of principal portion of lease liabilities	(1,759)	–
Payment of interest portion of lease liabilities	(199)	–
Repayment of finance leases payable	–	(598)
Proceeds from issue of convertible bonds	–	28,000
Proceeds from non-controlling shareholders of a subsidiary in respect of profit guarantee adjustment	–	72,061
Proceeds from issue of new shares	–	52,241
Other financing cash flows	–	(48)
Net cash (used in)/from financing activities	(9,805)	58,879

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 September 2019

	For the six months ended	
	30 September 2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net (decrease)/increase in cash and cash equivalents	(5,455)	34,697
Cash and cash equivalents at beginning of the period	10,599	6,877
Effect of foreign exchange rates changes	(269)	(1,262)
Cash and cash equivalents at end of the period, representing bank balances and cash	4,875	40,312

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

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, 10th Floor, 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 sale of automation control systems for industrial uses and (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

During the current interim period, 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 (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 in HK\$ is preferable when controlling and monitoring the performance and financial position of the Group.

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

For the six months ended 30 September 2019

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.

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 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2019.

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group’s condensed consolidated financial statements. Except as described below, the application of the new and amendments to HKFRSs has had no material effect on the amounts reported in these condensed consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time from 1 April 2019. HKFRS 16 superseded HKAS 17 *Leases* (“**HKAS 17**”), and the related interpretations. HKFRS 16 requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“**short-term leases**”) and leases of low value assets (“**low-value leases**”). The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

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

For the six months ended 30 September 2019

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

HKFRS 16 Leases *(Continued)*

The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of accumulated losses at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

(i) Key changes in accounting policies resulting from application of HKFRS 16

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease payments, including the cost of acquiring or held under operating leases, were recognised in profit or loss over the lease term on a straight-line basis.

On adoption of HKFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to profit or loss in the period in which it is incurred using effective interest method. The Group also applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Group further applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and low-value leases are recognised in profit or loss on a straight-line basis over the lease term.

At the inception of a contract that contains a lease component, as a lessee, the Group should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

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

For the six months ended 30 September 2019

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

HKFRS 16 Leases *(Continued)*

(i) Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

The associated right-of-use assets were measured at cost, being the amount equal to the initial measurement of lease liabilities, adjusted for items such as lease incentives received, initial direct costs paid and expected restoration costs, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term. The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients as permitted by HKFRS 16:

- (a) the election of not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020; and
- (b) the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.22%.

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

For the six months ended 30 September 2019

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

HKFRS 16 Leases *(Continued)*

(ii) Summary of effects arising from initial application of HKFRS 16

The following table reconciles the operating lease commitments as previously disclosed in note 37(b) to the consolidated financial statements for the year ended 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 HK\$'000 (Unaudited)
Operating lease commitments at 31 March 2019	9,779
Less: total future finance costs	<u>(705)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rates and the total liabilities recognised at 1 April 2019	9,074
Reclassified from finance leases payable (<i>Note</i>)	<u>675</u>
	<u>9,749</u>
Analysed as:	
Current	4,743
Non-current	<u>5,006</u>
	<u>9,749</u>

Note: Present value of remaining lease payments in relation to motor vehicles acquired through hire purchase were accounted for as finance leases payable as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of finance leases payable amounting to HK\$551,000 and HK\$124,000 respectively were reclassified to lease liabilities.

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

For the six months ended 30 September 2019

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

HKFRS 16 Leases *(Continued)*

(ii) Summary of effects arising from initial application of HKFRS 16 *(Continued)*

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	1 April 2019 HK\$'000 (Unaudited)
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	7,700
Reclassified from prepaid lease payments (<i>Note a</i>)	8,498
Reclassified from property, plant and equipment (<i>Note b</i>)	789
	<hr/> 16,987

Notes:

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$201,000 and HK\$8,297,000 respectively were reclassified to right-of-use assets.
- (b) Motor vehicles acquired through hire purchase were classified as an item of property, plant and equipment as at 31 March 2019. Upon application of HKFRS 16, the net carrying value of motor vehicles acquired through hire purchase amounting to HK\$789,000 were reclassified to right-of-use assets.

Except as described above, the application of HKFRS 16 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

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

For the six months ended 30 September 2019

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

HKFRS 16 Leases *(Continued)*

(ii) **Summary of effects arising from initial application of HKFRS 16** *(Continued)*

The following table summarises the impact of the initial application of HKFRS 16 on the Group's condensed consolidated statement of financial position as at 1 April 2019 for each of the line items affected:

	As at 31 March 2019 HK\$'000 (Audited)	Impact on initial application of HKFRS 16 HK\$'000 (Unaudited)	As at 1 April 2019 HK\$'000 (Unaudited)
Non-current assets			
Property, plant and equipment	49,584	(789)	48,795
Right-of-use assets	–	16,987	16,987
Prepaid lease payments	8,297	(8,297)	–
Current assets			
Prepaid lease payments	201	(201)	–
Current liabilities			
Finance leases payable	(551)	551	–
Lease liabilities	–	(4,743)	(4,743)
Non-current liabilities			
Finance leases payable	(124)	124	–
Lease liabilities	–	(5,006)	(5,006)
Equity			
Accumulated losses	(916,206)	(1,374)	(917,580)

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

For the six months ended 30 September 2019

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.

Continuing operations

Building Intelligence and
Smart Home:

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

Industrial 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.

Discontinued operations

Communication Technology:

Provision of specialized communication systems, equipment and system technologies, including digital trunking system, very small aperture terminal satellite system and operation integrated system.

Synertone 1 Satellite
Communication:

Provision of satellite bandwidth capacity and communication service application.

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

For the six months ended 30 September 2019

3. SEGMENT REPORTING *(Continued)*

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 attributable to the activities of the individual segments, bank and other borrowings and leases liabilities/finance leases payable 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 before interest and taxes ("**Adjusted EBIT**"). To arrive at the Adjusted EBIT, the Group's earnings are further adjusted for interest income, impairment loss of goodwill, loss on disposal of subsidiaries, share of results of an associate and items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2019

3. SEGMENT REPORTING (Continued)

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

Segment revenue and results

	For the six months ended 30 September 2019				
	Continuing operations			Discontinued operations	
	Building intelligence and smart home	Industrial control system	Total	Communication technology	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	18,059	14,567	32,626	-	32,626
Inter-segment revenue	2,387	3,905	6,292	-	6,292
Reportable segment revenue	20,446	18,472	38,918	-	38,918
Reportable segment loss (Adjusted EBIT)	(4,317)	(4,948)	(9,265)	(2,730)	(11,995)
Interest income			1,672	-	1,672
Finance costs			(4,557)	(82)	(4,639)
Loss on disposal of subsidiaries			-	(2,484)	(2,484)
Share of results of an associate			(12)	-	(12)
Unallocated corporate expenses			(8,362)	-	(8,362)
Consolidated loss before taxation			(20,524)	(5,296)	(25,820)

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

For the six months ended 30 September 2019

3. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

	For the six months ended 30 September 2018 (Restated)						
	Continuing operations			Discontinued operations			
	Building intelligence and smart home	Industrial control system	Total	Communication technology	Synertone 1 satellite communication	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	18,330	18,469	36,799	1,741	–	1,741	38,540
Inter-segment revenue	5,954	–	5,954	26	–	26	5,980
Reportable segment revenue	24,284	18,469	42,753	1,767	–	1,767	44,520
Reportable segment loss (Adjusted EBIT)	(2,314)	(1,352)	(3,666)	(10,674)	(16,580)	(27,254)	(30,920)
Impairment loss of goodwill			(1,500)			–	(1,500)
Interest income			499			3	502
Finance costs			(5,934)			(9,200)	(15,134)
Unallocated corporate expenses			(11,930)			–	(11,930)
Consolidated loss before taxation			(22,531)			(36,451)	(58,982)

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

For the six months ended 30 September 2019

3. SEGMENT REPORTING *(Continued)*

Segment assets and liabilities

	Continuing operations						Discontinued operations			
	Building intelligence and smart home		Industrial control system		Total		Communication technology		Total	
	30 September 2019	31 March 2019	30 September 2019	31 March 2019	30 September 2019	31 March 2019	30 September 2019	31 March 2019	30 September 2019	31 March 2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Assets										
Reportable segment assets	180,436	198,678	75,268	80,366	255,704	279,044	-	27,243	255,704	306,287
Elimination of inter-segment balances									(63,524)	(65,381)
									192,180	240,906
Unallocated corporate assets									69,064	64,596
Consolidated total assets									261,244	305,502
Liabilities										
Reportable segment liabilities	133,267	140,406	80,185	77,712	213,452	218,118	-	4,814	213,452	222,932
Elimination of inter-segment balances									(63,524)	(65,381)
									149,928	157,551
Amount due to a director									1	1
Deferred tax liabilities									2,327	3,646
Other unallocated corporate liabilities									7,049	4,993
Consolidated total liabilities									159,305	166,191

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

For the six months ended 30 September 2019

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	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
Building intelligence and smart home	18,059	18,330
Industrial control system	14,567	18,469
	32,626	36,799

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	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
PRC	32,309	36,677
Overseas	317	122
	32,626	36,799

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

For the six months ended 30 September 2019

5. OTHER INCOME AND OTHER LOSSES

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Continuing operations		
Other income		
Interest income on bank deposits	7	63
Interest income on loan receivables	1,665	436
Value-added taxes refund <i>(Note)</i>	1,005	1,242
Sundry income	370	613
	3,047	2,354
Other losses		
Net exchange loss	(556)	(1,986)
Net loss on disposal of property, plant and equipment	(26)	–
	(582)	(1,986)
	2,465	368

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

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

For the six months ended 30 September 2019

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
<hr/>		
Continuing operations		
Interest expense on bank and other borrowings	4,440	4,796
Interest expense on convertible bonds payable	–	1,085
Finance charges on lease liabilities	117	–
Finance charges on finance leases payable	–	53
	<hr/>	<hr/>
	4,557	5,934
	<hr/>	<hr/>

(b) Other items

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
<hr/>		
Continuing operations		
Cost of inventories recognised as expense	19,427	21,069
Amortisation of intangible assets	3,862	4,585
Depreciation of property, plant and equipment	1,861	2,793
Depreciation of right-of-use assets	1,289	–
	<hr/>	<hr/>

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

For the six months ended 30 September 2019

7. INCOME TAX CREDIT

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
Current tax		
PRC Enterprise Income Tax ("EIT") <i>(Note d)</i>	16	8
Deferred tax		
Origination and reversal of temporary differences	<u>(1,073)</u>	(1,257)
	<u>(1,057)</u>	(1,249)

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 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.

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

For the six months ended 30 September 2019

7. INCOME TAX CREDIT *(Continued)*

Notes: (Continued)

- (d) Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Group, 萬科思自控信息(中國)有限公司 (Wankesi Automation Information (China) Co., Limited), is exempted from PRC EIT for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year was the year 2014.

Other PRC subsidiaries of the Group are subject to PRC EIT at a rate of 25% (2018: 25%).

- (e) Under the EIT Law of the PRC, with effect from 1 January 2008, 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. The results of 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 current period, and the comparative figures in the preceding period has been restated accordingly.

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

For the six months ended 30 September 2019

8. DISCONTINUED OPERATIONS *(Continued)*

During the year ended 31 March 2019, the Group had discontinued its Synertone 1 satellite communication business through disposal of subsidiaries. The results of Synertone 1 satellite communication business for the six months ended 30 September 2018 had been restated and presented as a discontinued operation in the Group's condensed consolidated statement of profit or loss for the six months ended 30 September 2018.

	Period from 1 April 2019 to 23 August 2019 HK\$'000 (Unaudited)	Six months ended 30 September 2018 HK\$'000 (Unaudited)
Revenue	–	1,741
Cost of sales	–	(1,931)
Gross loss	–	(190)
Other income	1,094	3,197
Other gains and losses	(5)	(13,229)
Selling and distribution expenses	–	(1,911)
Administrative and other operating expenses	(1,823)	(8,326)
Research and development expenditure	(1,996)	(6,250)
Impairment loss of trade receivables	–	(542)
Loss from operations	(2,730)	(27,251)
Finance costs	(82)	(9,200)
Loss before taxation	(2,812)	(36,451)
Income tax credit	–	–
Loss for the period	(2,812)	(36,451)
Loss on disposal of subsidiaries	(2,484)	–
Loss for the period from discontinued operations	(5,296)	(36,451)

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

For the six months ended 30 September 2019

8. DISCONTINUED OPERATIONS *(Continued)*

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

	For the six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expense	–	961
Government grants <i>(Note)</i>	(1,094)	(1,141)
Depreciation of property, plant and equipment	1,489	3,838
Depreciation of right-of-use assets	587	–
Allowance for inventories	–	970
Net exchange loss	5	13,388
Net gain on disposal of property, plant and equipment	–	(159)

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”.

9. DIVIDENDS

During the six months ended 30 September 2019, 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 2018: Nil).

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

For the six months ended 30 September 2019

10. LOSS PER SHARE

For continuing and discontinued operations

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$23,978,000 (six months ended 30 September 2018: HK\$57,168,000) and the weighted average number of 4,301,816,000 ordinary shares (six months ended 30 September 2018: 3,941,910,000 ordinary shares) in issue during the period.

(b) *Diluted loss per share*

The calculation of the diluted loss per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company		
for the purpose of diluted loss per share	(23,978)	(57,168)
	'000	'000
Number of shares		
Weighted average number of ordinary		
shares for the purpose of basic loss		
per share	4,301,816	3,941,910
Adjustment for warrants	–	–
Adjustment for share options	–	–
Adjustment for convertible bonds	–	–
Weighted average number of ordinary		
shares for the purpose of diluted loss		
per share	4,301,816	3,941,910

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

For the six months ended 30 September 2019

10. LOSS PER SHARE *(Continued)*

For continuing and discontinued operations *(Continued)*

(b) *Diluted loss per share (Continued)*

For the six months ended 30 September 2019 and 2018, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and warrants at the relevant times as the exercise prices of such share options and warrants were higher than the average market price per share.

For the six months ended 30 September 2018, the computation of diluted loss per share did not assume the conversion of the Company's outstanding convertible bonds (at beginning of the interim period or date of issue where applicable) as the conversion of convertible bonds to ordinary shares would have anti-dilutive effect.

For continuing operations

The calculation of the diluted loss per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company for the purpose of diluted loss per share	(23,978)	(57,168)
Add: Loss for the period from discontinued operations	5,296	36,451
	(18,682)	(20,717)

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

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

For the six months ended 30 September 2019

10. LOSS PER SHARE *(Continued)*

For discontinued operations

Basic and diluted loss per share for the discontinued operations is HK0.13 cent per share (Six months ended 30 September 2018: HK0.92 cent per share), based on the loss for the period from discontinued operations of HK\$5,296,000 (Six months ended 30 September 2018: HK\$36,451,000) and the denominators detailed above for both basic and diluted loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group spent HK\$1,787,000 on additions to property, plant and equipment (Six months ended 30 September 2018: HK\$962,000).

12. GOODWILL

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Cost	195,987	238,238
Less: Accumulated impairment losses	(147,900)	(187,672)
	48,087	50,566

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

For the six months ended 30 September 2019

12. GOODWILL *(Continued)*

The carrying amount of goodwill as at 30 September 2019 has been allocated to three individual cash generating units as follows:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Provision of safe communication technologies	–	–
Building intelligence and smart home	–	–
Industrial control system	48,087	50,566
	48,087	50,566

During the six months ended 30 September 2019, the Group recognised impairment loss of nil (six months ended 30 September 2018: HK\$1,500,000) under industrial control system cash generating unit as management of the Group determines that the carrying amount of those assets related to the cash generating unit exceeded the recoverable amount at the end of each reporting period.

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

For the six months ended 30 September 2019

13. TRADE AND OTHER RECEIVABLES

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Trade receivables <i>(Notes a, b)</i>	54,596	141,393
Less: Loss allowance <i>(Note c)</i>	(26,308)	(93,451)
	28,288	47,942
Loan receivables <i>(Note d)</i>	55,000	55,000
Other receivables	17,409	15,672
Prepaid value-added and other taxes	226	63
Deposits and prepayments	8,952	12,418
	109,875	131,095

Notes:

- (a) For the six months ended 30 September 2019, purchases of the Group's products by its customers are in general made on credit with credit period of 30 days (31 March 2019: 30 to 180 days). A longer credit period of 31 to 365 days (31 March 2019: 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.

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

For the six months ended 30 September 2019

13. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

- (b) The aging analysis of trade receivables based on invoice date is as follows:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
0–60 days	9,097	12,109
61–90 days	834	2,966
91–180 days	2,204	9,732
181–365 days	5,779	6,849
Over 365 days	36,682	109,737
	54,596	141,393
Less: Loss allowance	(26,308)	(93,451)
	28,288	47,942

- (c) The Group measures loss allowances for trade receivables at an amount equal to lifetime expected 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.

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

For the six months ended 30 September 2019

13. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(c) *(Continued)*

The following table provides information about the Group's ECLs for trade receivables as at 30 September 2019:

	Average loss rate		Loss allowance	
	30 September 2019 %	31 March 2019 %	30 September 2019 HK\$'000	31 March 2019 HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
0–180 days	23.42%	8.78%	2,842	2,179
181–365 days	40.79%	2.86%	2,357	196
Over 365 days	57.55%	82.99%	21,109	91,076
			26,308	93,451

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 at 6% per annum (31 March 2019: 6% per annum) and repayable within one year.

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

For the six months ended 30 September 2019

14. TRADE AND OTHER PAYABLES

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Trade payables	14,724	19,031
Bill payables	5,432	5,712
Accrued salaries	4,216	3,268
Accrued expenses and other payables	19,095	16,827
Financial liabilities measured at amortised cost	43,467	44,838
Contract liabilities	13,941	12,156
Other tax payables	173	654
	57,581	57,648

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

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
0–60 days	6,564	6,002
61–90 days	251	647
91–180 days	378	2,025
181–365 days	3,251	680
Over 365 days	4,280	9,677
	14,724	19,031

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

For the six months ended 30 September 2019

15. BANK AND OTHER BORROWINGS

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Bank borrowings		
– secured	39,911	33,108
– unsecured	22,672	34,974
Unsecured other borrowings	33,259	36,139
	95,842	104,221

At 30 September 2019, bank and other borrowings were due for repayment as follows:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Within one year	95,842	104,221

The banking facilities are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants. As at 30 September 2019, none of the covenants relating to drawn down facilities had been breached (31 March 2019: Nil).

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

All the bank and other borrowings are fixed-rate borrowings which carry interest at prevailing interest rates of 5.22%-6.85% per annum for the period ended 30 September 2019 (31 March 2019: 5.22%-6.85% per annum).

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

For the six months ended 30 September 2019

16. SHARE CAPITAL

	30 September 2019		31 March 2019	
	Number of shares '000	Amount HK\$'000 (Unaudited)	Number of shares '000	Amount HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.05 each	8,000,000	400,000	8,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK\$0.05 each				
At beginning of the period/year	4,301,816	215,091	3,348,800	167,440
Issue of shares <i>(Note)</i>	–	–	653,016	32,651
Issue of shares upon conversion of convertible bonds	–	–	300,000	15,000
At end of the period/year	4,301,816	215,091	4,301,816	215,091

Note: During the year ended 31 March 2019, the Company issued 653,016,000 new shares under general mandate to an independent third party at the subscription price of HK\$0.08 per share. The net proceeds amounting to HK\$52,193,000 had been applied as general working capital purpose.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2019

17. ACQUISITION OF A SUBSIDIARY

During the six months ended 30 September 2019, the Group further acquired through an indirect 85%-owned subsidiary of the Company an 51% equity interest in 杭州奥邁智能科技有限公司 (“**Hangzhou Aomai**”) for a cash consideration of HK\$450,000 (the “**Further Acquisition**”). Hangzhou Aomai is engaged in the sales of building intelligence and smart home products in the PRC. Upon completion of the Further Acquisition, the Group’s effective equity interest in Hangzhou Aomai increased from 41.65% to 85% and thereafter Hangzhou Aomai becomes an indirect non-wholly owned subsidiary of the Company. No goodwill arose from the acquisition.

The analysis of assets and liabilities acquired by the Group arising from the further acquisition of equity interest in Hangzhou Aomai were as follows:

	HK\$’000 (Unaudited)
Trade and other receivables	2,151
Cash and cash equivalents	10
Trade and other payables	<u>(1,279)</u>
	882
Carrying amount of interests in an associate previously held	<u>(432)</u>
Total consideration	<u>450</u>

Net cash outflow arising on the acquisition:

	HK\$’000 (Unaudited)
Cash consideration paid	450
Less: Cash and cash equivalents acquired	<u>(10)</u>
	<u>440</u>

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

For the six months ended 30 September 2019

18. DISPOSAL OF SUBSIDIARIES

The analysis of assets and liabilities of Synertone Communication Technology Limited and Thrive United Holdings Limited at the date of disposal as disclosed in note 8 were as follows:

	HK\$'000 (Unaudited)
Property, plant and equipment	6,498
Right-of-use assets	3,110
Intangible assets	–
Goodwill	–
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	(98)
	<u>23,237</u>
Release of translation reserve	(13,053)
Loss on disposal of subsidiaries	<u>(2,484)</u>
Total consideration	<u>7,700</u>

Net cash inflow arising on disposal:

	HK\$'000 (Unaudited)
Cash and cash equivalents disposed of	<u>(171)</u>

The disposal consideration has not been settled as at 30 September 2019 and was included in the carrying amount of trade and other receivables.

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

For the six months ended 30 September 2019

19. COMMITMENTS

- (a) As at 30 September 2019, the Group had the following capital commitments:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
<hr/>		

Contracted but not provided for in
the condensed consolidated
financial statements:

– Renovation of office	–	1,676
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- (b) As at 30 September 2019, the Group had the following commitments for future minimum lease payments for the leases accounted for as short-term leases and low-value leases. The remaining leases have been recorded as lease liabilities as at 30 September 2019 under the initial application of HKFRS 16 (Note 2). The operating lease commitments as at 31 March 2019 presented below represents the future minimum lease payments under all non-cancellable operating leases.

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
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Within one year	–	4,279
In the second to fifth year inclusive	–	5,500

	–	9,779
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The Group leases various land and properties for usage as office and factory premises. The associated lease payments are fixed throughout the lease terms.

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

For the six months ended 30 September 2019

20. MATERIAL RELATED PARTY TRANSACTIONS

The Group entered into the following significant transactions with its related parties during the period:

(a) Balances with related parties

At the end of each reporting period, the Group has the following balances with related parties:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Amount due to a director		
Wong Chit On	<u>1</u>	<u>1</u>

The amount is unsecured, interest free and repayable on demand.

(b) Transactions with key management personnel

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

	For the six months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Salaries and other short term benefits	3,705	3,977
Post-employment benefits	66	65
	<u>3,771</u>	<u>4,042</u>

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

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

For the six months ended 30 September 2019

20. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Guarantee

At the end of each reporting period, a personal guarantee was given by a director of the Company for the purchase of motor vehicles under finance lease through financial institutions with the carrying amount of finance leases payable as follows:

	30 September 2019 HK\$'000 (Unaudited)	31 March 2019 HK\$'000 (Audited)
Finance leases payable guaranteed by a director	–	675

21. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform with current interim period's presentation.

22. EVENTS AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of integrated communication systems, and industrial and building automation solutions. The Group provides its systems and solutions products through research and development and acquisition of relevant intellectual property rights and technology know-how from third parties. The Group also provides specialised communication network design and implementation to address the specific needs of the customers.

During the six months ended 30 September 2019, the Group's sales turnover generated by the industrial control system business and the building intelligence and smart home business remains at a relatively stable level. The management has been striving its effort to expand into new customer bases in order to overcome the challenge posed by the slowdown of China's economic growth.

In 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, and thereafter the Group ceased the operation of its communication technology business. The Directors have considered to cease the Group's communication technology business on the basis that the outlook of market demand for its specialised communication systems and products is diminished, which has been partly affected by the Group's discontinuation of the satellite communication business in the preceding financial year. During the six months ended 30 September 2019, the Group recorded no turnover arising from the communication technology business due to the lack of customer demand for the products.

Going forward, the Group is also focusing to secure new investment opportunities. In September 2018, the Company, as purchaser, entered into a non-legally binding letter of intent with a vendor, in relation to the possible acquisition in a controlling interest in Dolphin International Technology Co., Limited (海豚國際科技有限公司) ("**Dolphin International**"). Dolphin International is an innovative high-tech enterprise, focusing on the integration of the big data cloud platform of the internet by using the smart shared hardware, principally engaged in the provision of smart power bank rental and information dissemination services across China. The relevant due diligence review in relation to Dolphin International is currently in progress as of the date of this report. Subject to the results of such due diligence review and further negotiations between the parties on the price, the shareholding percentage to be acquired, and other terms and conditions, the Company and the vendor shall enter into a formal and binding agreement in respect of the possible acquisition of Dolphin International.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW

Turnover

The Group recorded a revenue of approximately HK\$32.6 million for the six months ended 30 September 2019, representing a decrease of approximately HK\$4.2 million or 11.4% as compared to approximately HK\$36.8 million for the six months ended 30 September 2018.

During the period under review, the Group derived its revenue from industrial control system and building intelligence and smart home businesses. The following table sets forth a breakdown of revenue by product category for the periods presented:

	Six months ended 30 September			
	2019 HK\$'000	%	2018 HK\$'000	%
Building intelligence and smart home	18,059	55.4	18,330	49.8
Industrial control system	14,567	44.6	18,469	50.2
	32,626	100.0	36,799	100.0

The slight decrease in the Group's total revenue for the six months ended 30 September 2019 was mainly attributable to the depreciation of Renminbi ("RMB") against HK\$ relative to the corresponding period in preceding year, which resulted in a lower reported revenue presented under HK\$. Meanwhile, there was a small decline in sales of the industrial control system products measured under local currency.

Cost of sales

Cost of sales of the Group consists of costs of raw materials, labour costs, manufacturing overheads and amortization charge of intangible assets. It decreased by approximately HK\$1.9 million or 8.7% from approximately HK\$21.9 million for the six months ended 30 September 2018 to approximately HK\$20.0 million for the six months ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Gross profit and gross profit margin

The Group's gross profit for the six months ended 30 September 2019 was approximately HK\$12.6 million, with a slight decrease of approximately HK\$2.3 million or 15.4% as compared to approximately HK\$14.9 million for the six months ended 30 September 2018. The decrease in gross profit is generally in line with the decrease of sales turnover. The gross profit margin for the six months ended 30 September 2019 was 38.6%, with a slight decrease of 1.8% as compared with 40.4% for the six months ended 30 September 2018.

Other income

Other income of the Group amounted to approximately HK\$3.0 million for the six months ended 30 September 2019, representing an increase of approximately HK\$0.6 million or 25.0% from approximately HK\$2.4 million for the six months ended 30 September 2018. The increase was mainly due to the increase in interest income generated from short-term loans advanced to independent third parties.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately HK\$1.0 million or 31.3% from approximately HK\$3.2 million for the six months ended 30 September 2018 to approximately HK\$2.2 million for the six months ended 30 September 2019.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK\$5.1 million or 19.7% from approximately HK\$25.9 million for the six months ended 30 September 2018 to approximately HK\$20.8 million for the six months ended 30 September 2019, mainly attributable to reduced staff costs, legal and professional fees, and travel expenses as a result of stringent cost control measures.

Research and development expenditure

The research and development expenditure of the Group reduced by approximately HK\$1.9 million or 40.4% from approximately HK\$4.7 million for the six months ended 30 September 2018 to approximately HK\$2.8 million for the six months ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Impairment loss of trade receivables

During the six months ended 30 September 2019, the Group generally grant a credit period of 30 days (2018: 30 to 180 days) to its trade customers. A longer credit period of 31 to 365 days (2018: 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.

As at 30 September 2019, trade receivables amounting to approximately HK\$26.3 million (31 March 2019: approximately HK\$93.5 million) were impaired based on an expected credit loss model. The assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, current conditions at the reporting date as well as the forecast of future conditions. Impairment loss of approximately HK\$5.1 million was recognised in profit or loss for the six months ended 30 September 2019.

Finance costs

The finance costs of the Group was approximately HK\$4.6 million for the six months ended 30 September 2019, comprising interest on bank and other borrowings of approximately HK\$4.4 million and finance charges of approximately HK\$0.2 million on lease liabilities. The decrease in finance costs of approximately HK\$1.3 million or 22.0% from approximately HK\$5.9 million for the six months ended 30 September 2018 was due to the decrease in average balances of bank and other borrowings and convertible bonds.

Income tax

The tax credit of the Group decreased by approximately HK\$0.1 million or 8.3% from approximately HK\$1.2 million for the six months ended 30 September 2018 to approximately HK\$1.1 million for the six months ended 30 September 2019, and was mainly attributable to decrease in deferred tax credit arising from reversal of temporary differences in relation to intangible assets acquired from business combinations in prior years.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Loss from discontinued operations

Loss from discontinued operations of the Group amounted to HK\$5.3 million for the six months ended 30 September 2019, as compared to a loss from discontinued operations of approximately HK\$36.5 million for the corresponding period last year. The decrease was mainly due to the disposal of the Group's former Synertone 1 satellite communication business in the year ended 31 March 2019 which contributed to the loss from discontinued operations for the six months ended 30 September 2018. On the other hand, the loss from discontinued operations for the six months ended 30 September 2019 only comprises the loss arising from the communication technology business.

Loss for the period

Given the foregoing factors, the Group recorded the loss attributable to owners of the Company of approximately HK\$24.0 million for the six months ended 30 September 2019, while the loss attributable to owners of the Company for the corresponding period in preceding year was approximately HK\$57.2 million.

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.

On 22 September 2014, the Company issued 660,000,000 warrants to CITIC Capital Management Limited at the issue price of HK\$0.01 per warrant (restated to 196,666,667 warrants following share consolidation on 24 March 2016 and rights issue completed on 28 April 2016). Each warrant carries the right to subscribe for one warrant share at the subscription price of HK\$1.98 (subject to adjustment). Such warrants can be exercised at any time during the exercise period of five (5) years commencing from the date of issue. During the six months ended 30 September 2019, the warrants were not exercised and subsequently expired on 21 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 30 September 2019 was approximately 1.0 (31 March 2019: approximately 1.1). Gearing ratio calculated by total borrowings (comprising bank and other borrowings and lease liabilities (31 March 2019: finance leases payable)) net of cash and cash equivalents, over total equity as at 30 September 2019 was 93% (31 March 2019: 68%).

The following table summarises the cash flows of the Group for the six months ended 30 September 2019 together with the comparative figures for the six months ended 30 September 2018:

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Net cash from operating activities	6,220	5,987
Net cash used in investing activities	(1,870)	(30,169)
Net cash (used in)/from financing activities	(9,805)	58,879

Operating activities

Net cash from operating activities amounted to approximately HK\$6.2 million for the six months ended 30 September 2019, which was slightly increased by approximately HK\$0.2 million or 3.3% as compared with that for the corresponding period in last year.

Investing activities

Net cash used in investing activities amounted to approximately HK\$1.9 million for the six months ended 30 September 2019, which was decreased by approximately HK\$28.3 million or 93.7% as compared with that for the corresponding period in last year. The decrease was attributable to the absence of short term loans advanced to independent third parties in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financing activities

Net cash used in financing activities amounted to approximately HK\$9.8 million for the six months ended 30 September 2019, which mainly represented the net cash outflows arising from the payment of interest and principal in relation to the Group's bank and other borrowings. In contrast, net cash from financing activities amounted to approximately HK\$58.9 million for the six months ended 30 September 2018, which were attributable to the proceeds from the issue of new shares and convertible bonds.

Bank and other borrowings

As at 30 September 2019, the Group had outstanding bank and other borrowings of approximately HK\$95.8 million (31 March 2019: HK\$104.2 million).

Pledge of assets

As at 30 September 2019, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK\$42.3 million (31 March 2019: HK\$47.1 million) pledged against bank borrowings raised by the Group and lease liabilities/finance leases payable.

Contingent liabilities

As at 30 September 2019, the Group had no material contingent liabilities.

Major acquisition and disposal

Save as disclosed in note 8 to the condensed consolidated financial statements and the section headed "Business Review" above, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 September 2019.

Significant capital expenditure for the period

The Group has no significant capital expenditure commitments as at 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Risk of foreign exchange fluctuations

Substantially all transactions of the Group are denominated in RMB, United States dollars and HK\$ and most of the bank deposits are in RMB and HK\$ to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against United State dollars 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 2019.

Employee and remuneration policy

As at 30 September 2019, the Group had 160 employees (31 March 2019: 159). For the six months ended 30 September 2019, the staff costs of the Group amounted to approximately HK\$13.5 million, representing a decrease of approximately HK\$3.8 million or 22.0% as compared to approximately HK\$17.3 million for the corresponding period last year, mainly due to the depreciation of RMB against HK\$ and the decrease in staff costs attributable to the communication technology business which was discontinued during the period under review.

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 a yearly basis. In addition to basic salary, performance related remuneration such as bonus may also be awarded to employees based on internal performance evaluation. 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. During the six months ended 30 September 2019, no share options were issued under the share option scheme.

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

OTHER INFORMATION

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

As at 30 September 2019, the interests and short positions of the Directors and chief executive of the Company in any of the Company's shares (the "**Shares**"), underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Chapter 571, Laws of Hong Kong ("**SFO**")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") were as follows:

LONG POSITIONS IN SHARES

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding
Mr. Wong Chit On	Interest of a controlled corporation	1,194,710,296 (Note)	27.77%
Mr. Han Weining	Beneficial owner	40,800,000	0.95%

Note: These interests in Shares are held by Excel Time Investments Limited (the "**Excel Time**"), which is wholly and beneficially owned by Mr. Wong Chit On, the chairman of the Board (the "**Chairman**") and an executive Director. By virtue of the SFO, Mr. Wong Chit On is deemed to be interested in these 1,194,710,296 Shares. Mr. Wong Chit On is the sole director of Excel Time.

OTHER INFORMATION *(Continued)*

Save as disclosed above, as at 30 September 2019, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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

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

As at 30 September 2019, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

LONG POSITION IN SHARES

Name of Shareholder	Capacity/ Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of issued Shares <i>(Note 1)</i>
Excel Time	Beneficial owner	1,194,710,296 <i>(Note 2)</i>	27.77%
Gao Jiemin	Beneficial owner	653,016,000	15.18%

OTHER INFORMATION *(Continued)*

Name of Shareholder	Capacity/ Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of issued Shares <i>(Note 1)</i>
Baoshan International Group Limited	Beneficial owner	300,000,000 <i>(Note 3)</i>	6.97%
Wang Jian	Interest of a controlled corporation	300,000,000 <i>(Note 3)</i>	6.97%
	Beneficial owner	17,520,000	0.41%

Notes:

1. Based on 4,301,816,000 Shares in issue as at 30 September 2019.
2. Excel Time is wholly-owned by Mr. Wong Chit On, the Chairman and an executive Director whose interest in Shares is set out in the above section headed "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures of the Company or its associated corporations".
3. Such Shares were registered in the name of Baoshan International Group Limited ("**Baoshan International**"), a company which is wholly-owned by Mr. Wang Jian. By virtue of the provisions of Part XV of the SFO, Mr. Wang Jian is deemed to be interested in all the Shares held by Baoshan International.

Save as disclosed above, as at 30 September 2019, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying shares of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

OTHER INFORMATION *(Continued)*

SHARE OPTION SCHEME

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

The refreshment of scheme mandate limit of the Share Option Scheme was approved by the Shareholders at the Company’s annual general meeting held on 26 September 2019 (the “**2019 AGM**”) as an ordinary resolution of the Company, whereby the total number of the Shares that could be issued upon exercise of all share options that could be granted under the scheme mandate limit was 430,181,600 Shares, representing 10% of the issued share capital of the Company as at the date of passing such resolution.

For the six months ended 30 September 2019, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme. As such, the total number of Shares available for issue upon exercise of the share options to be granted under the Share Option Scheme was 430,181,600 Shares, representing 10% of the Shares in issue as at the date of this interim report.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities during the six months ended 30 September 2019.

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 2019 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. Mr. Wong Chit On, the Chairman, was not able to attend the 2019 AGM due to another important business meeting. Mr. Han Weining, the executive Director and chief executive officer of the Company, was appointed as the chairman of the 2019 AGM to answer and address questions raised by the Shareholders at the 2019 AGM.

OTHER INFORMATION *(Continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct for Directors in their dealings in the Company's securities. Upon the Company's specific enquiry, 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 2019.

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 2019 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the six months ended 30 September 2019 and up to the date of this report.

On Behalf of the Board
Synertone Communication Corporation
Wong Chit On
Chairman and Executive Director

Hong Kong, 25 November 2019

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