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

## 2023 ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Mr. Han Weining *(Co-Chief Executive Officer)*
Mr. Chong Alex Tin Yam *(Co-Chief Executive Officer)*
*(appointed on 19 May 2023)*
Ms. Wang Jie

### NON-EXECUTIVE DIRECTOR

Mr. Wong Hoi Lok *(appointed on 24 July 2023)*

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ying Hung Andy
Mr. Wang Chen
Ms. Li Mingqi
Mr. Cheng Nicholas Tat Hei *(appointed on 19 May 2023)*

## COMMITTEES

### AUDIT COMMITTEE

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

### NOMINATION COMMITTEE

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

### REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Ting Kin Wai

## AUTHORISED REPRESENTATIVES

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

## REGISTERED OFFICE

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

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

130 Qunxian Road, Nanhu District
Jiaxing City, Zhejiang Province
China

## PRINCIPAL BANKERS

### HONG KONG

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

### PEOPLE'S REPUBLIC OF CHINA ("PRC")

Bank of China
China Construction Bank
Bank of Jiaxing
Hecheng Rural Commercial Bank
Agricultural Bank of China
Industrial and Commercial Bank of China
China Merchants Bank
China Minsheng Bank
Bank of Tianjin
Zhejiang Tailong Commercial Bank
Shanghai Pudong Development Bank Co., Ltd.

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17th Floor, Far East Finance Centre
No.16 Harcourt Road
Hong Kong

## LEGAL ADVISER

Michael Li & Co.
19/F., Prosperity Tower
No.39 Queen's Road Central
Central
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

# FINANCIAL HIGHLIGHTS

The financial highlights of Synertone Communication Corporation (the "Company", together with its subsidiaries, the "Group") for the year ended 31 March 2023 are presented as follows:

- Revenue of the Group decreased by approximately HK$53.7 million or 47.0% from approximately HK$114.2 million for the year ended 31 March 2022 to approximately HK$60.5 million for the year ended 31 March 2023.

- Gross profit of the Group decreased by approximately HK$14.0 million from approximately HK$22.9 million for the year ended 31 March 2022 to approximately HK$8.9 million for the year ended 31 March 2023, with gross profit margin decreased from approximately 20.1% for the year ended 31 March 2022 to 14.8% for the year ended 31 March 2023.

- Loss attributable to owners of the Company decreased by approximately HK$68.7 million or 62.6% from approximately HK$109.7 million for the year ended 31 March 2022 to HK$41.0 million for the year ended 31 March 2023.

| **Results performance for the year ended 31 March** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Revenue (HK$'000) | **60,538** | 114,165 | 90,281 |
| Gross profit (HK$'000) | **8,948** | 22,939 | 23,019 |
| Gross profit margin (%) | **14.8** | 20.1 | 25.5 |
| Loss for the year (HK$'000) | **(43,679)** | (113,773) | (16,891) |
| Net loss margin (%) | **(72.2)** | (99.7) | (18.7) |
| Basic loss per share (HK$) | **(0.16)** | (0.09) | (0.01) |

| **Liquidity and gearing ratio as at 31 March** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Inventories turnover days *(Note 1)* | **370** | 212 | 268 |
| Trade receivables turnover days *(Note 2)* | **130** | 93 | 151 |
| Trade payables turnover days *(Note 3)* | **94** | 33 | 58 |
| Current ratio | **0.7** | 0.8 | 1.0 |
| Gearing ratio (%) *(Note 4)* | **96.4** | 69.7 | 43.8 |

| **Operating cash flow and capital expenditure for the year ended 31 March** | **2023** | 2022 | 2021 |
|---|---|---|---|
| Net cash used in operating activities (HK$'000) | **(2,716)** | (7,702) | (7,726) |
| Capital expenditure (HK$'000) *(Note 5)* | **223** | 10,702 | 2,251 |

*Notes:*

1. Calculation was based on the average of the inventory balance at the beginning and the end of the relevant year divided by cost of sales (excluding depreciation charge) for the year and multiplied by 365 days.

2. Calculation was based on the average of the trade receivables balance at the beginning and the end of the relevant year divided by total turnover for the year and multiplied by 365 days.

3. Calculation was based on the average of the trade payables balance at the beginning and the end of the relevant year divided by cost of sales (excluding depreciation charge) for the year and multiplied by 365 days.

4. Calculation was based on total bank borrowings and lease liabilities, net of cash and cash equivalents at the end of the relevant year, over total equity at the end of the relevant year.

5. It represented the payments in relation to the purchase of property, plant and equipment.

# CO-CEOS' STATEMENT

To Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, we hereby present the Group's annual report for the financial year ended 31 March 2023 ("FY2023").

FY2023 is a challenging year to the Company since we experienced lockdown in most of the cities in the People's Republic of China ("China" or the "PRC") due to the outbreak of the coronavirus disease (the "COVID-19") pandemic, followed by another outbreak of COVID-19 pandemic in the third quarter of FY2023. These events had an adverse impact to our principal businesses, which were mainly located in Eastern China region, with persistent suspension in both of the production and operation for nearly half a year. As such, the Group recorded a decrease in revenue for both of its control system and building intelligence operations to HK$34.0 million (2022: HK$47.3 million) and HK$25.8 million (2022: HK$60.4 million) respectively. As the expected credit loss for our receivables was reduced and that no more impairment loss of goodwill was recognised this year, the loss attributable to owners of the Company decreased significantly to HK$41.0 million as compared to HK$109.7 million for the year ended 31 March 2022. In view of the relaxation of the pandemic measures in China since 2023, we expect the Group's performance will improve for the coming financial year.

It is our ongoing strategy to explore new investment or opportunities which can expand or diversify our business and bring long-term benefit to the Group. In June 2023, we newly invested in a joint venture which was engaged in the virtual asset trading platform business in Hong Kong at its early stage. In view of the exponential growth in virtual asset-related activities in recent years, we believe that such investment will enable us to capitalize on emerging market opportunities and create new sources of revenue from the transformation of traditional financial markets in Hong Kong.

On financing side, the Company successfully placed new shares in October 2022 and May 2023 respectively, the total net proceeds of approximately HK$26.8 million raised from these placings would strengthened the Group's financial position and the net proceeds are utilised or expected to be applied as general working capital and for further investments of the Group. We will continue to seek and identify any suitable fund-raising opportunities in the future for the benefit of the Group's operations and for our future development.

On behalf of the Board, we would like to extend our sincere gratitude to the shareholders, staff, customers, suppliers and other stakeholders for your continuous support and contribution to the Company over the years.

**Han Weining**
*Co-Chief Executive Officer*

**Chong Alex Tin Yam**
*Co-Chief Executive Officer*

30 June 2023

# MANAGEMENT DISCUSSION AND ANALYSIS

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is one of the leading providers of building and home intelligence products and integrated automation control systems and solutions. 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 modern living. As one of the world's leading providers of automation control systems, the Group possesses leading standard of technical know-how and commercial competitiveness with which the products are extensively applied in diversified industries including electrical power, petrochemical, public utilities, mining, natural gas and food and beverage industries. The Group has its operation base in Jiaxing City, Zhejiang province of China and has established offices and sales network across major cities in China, including Beijing, Shanghai, Changsha and Hangzhou. Besides, the Group commenced its new data centre business in Hong Kong during the financial year ended 31 March 2022 ("FY2022" or the "Prior Year"), which involves the rental and maintenance services for computer equipment and machines located in Hong Kong.

During the financial year ended 31 March 2023 ("FY2023" or the "Current Year"), the Group's principal operations include (i) design, development and sales of automation control systems and solutions, (ii) design, research and development, manufacture and sales of intelligent systems including video intercom and surveillance systems for residential homes and buildings, and (iii) rental, maintenance, other related services in relation to computer equipment and machines, information technology infrastructure, and advanced technologies such as robots.

*Control system operations*

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

Attributable to the lockdown policy due to the COVID-19 pandemic outbreak in China, the principal operation of our control system business, including the on-site technical support services for corporate projects, was seriously affected and suspended in the first half of FY2023. Such adverse impact was particularly obvious for those operations located in the Eastern China region centred around Shanghai. As a result, the external revenue recorded by the Group's control system segment dropped to HK$34.0 million for FY2023 (2022: HK$47.3 million). However, as no impairment loss of goodwill was recognised in the Current Year (2022: HK$27.9 million) and a decrease in the provision of expected credit loss of HK$1.2 million (2022: HK$9.9 million) was recorded by the control system segment for the Current Year, the segment operating loss for FY2023 decreased significantly to HK$2.4 million as compared to HK$34.4 million recorded for FY2022.

*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 FY2023, the sales operation of the Group's "MOX" brand video intercom and surveillance system products has worsened with external revenue decreased from HK$60.4 million for the Prior Year to HK$25.8 million for the Current Year. Such decrease in revenue was mainly due to the lockdown in China since the second quarter until the third quarter of 2022, particularly in Shanghai and Eastern China regions where the principal production and operation of the Group's building intelligence operations were located, which led to the complete suspension on our production and operation for half of the year. Coupled with the impact of sustained downturn in the property sector, and the cost increment in the worldwide pricing of product components like integrated circuit chips, monitors and touch screens, the Group's building intelligence segment recorded an operating loss of HK$13.7 million for the Current Year (2022: HK$23.5 million). The decrease in segment loss for FY2023 was mainly due to the decrease in the provision of expected credit loss of HK$4.3 million recognised for its receivables as compared to HK$12.9 million recognised for FY2022.

*Data centre operations*

In FY2022, the Group developed and commenced its new data centre business in the provision of rental and maintenance services to customers in relation to computer equipment and machines, information technology infrastructure and platform and robots and other related services. The launch of the new business by the Group was for the purpose of better utilisation of the Group's financial resources and improving the Group's financial position and performance under the current unfavourable business environment. As at 31 March 2023, the capital expenditure by the Group for the data centre operations was approximately HK$10.0 million, comprising the acquisition of high-quality computer equipment and leasehold improvements for equipment warehouse of approximately HK$9.8 million and the acquisition of commercial service robots of approximately HK$0.2 million.

During the Current Year, the Group rented out high-quality computer equipment and provided related custody and maintenance services to a corporate customer located in Hong Kong with revenue of HK$0.6 million and the related rental and maintenance service contracts expired in May 2022 without further renewal. The resulting loss incurred was approximately HK$3.7 million which was mainly due to the recognition of related depreciation charge and overhead costs for the Current Year. In April 2022, the Group launched its new project on the commercial service robots rental business, which contributed a revenue of approximately HK$239,000 and related profit of approximately HK$200,000. Accordingly, the Group's data centre operations recorded an overall revenue of HK$0.8 million (2022: HK$6.5 million) and segment loss of HK$3.5 million (2022: profit of HK$1.7 million) for the Current Year.

*Investment in associate engaging in the charging station leasing operations*

In June 2020, the Company acquired 20% equity interests in an associate namely Iogo Workshop Investment Limited (together with its subsidiaries, the "Iogo Workshop Group") at a consideration of HK$56 million which, through its wholly-owned subsidiary 深圳市海豚共享科技有限公司 (literally translated as Shenzhen Dolphin Technology Company Limited), is principally engaged in the leasing and renting of charging stations for mobile devices and extended value-added services. As at 31 March 2023, the carrying value of Iogo Workshop Group in the Group's consolidated financial statements was approximately HK$51.6 million (2022: HK$54.7 million), representing approximately 22.8% (2022: 20.2%) of the Group's total assets value.

Owing to the COVID-19 pandemic, a number of provinces in China have experienced on-and-off lockdown during FY2023 which led to closure and suspension of operation of retail and catering business in China. As the operation points for leasing of the Iogo Workshop Group's mobile charging stations are principally located at retail outlets and restaurants in China, Iogo Workshop Group's leasing business was adversely affected. As such, the revenue of the Iogo Workshop Group dropped significantly to HK$0.2 million (2022: HK$0.8 million) and an operating loss of HK$14.3 million (2022: HK$4.6 million) was recorded for FY2023. Accordingly, the loss recognised by the Group as sharing of results of its associates for the Current Year was HK$2.9 million (2022: HK$0.9 million). As the pandemic situation in China improved and the strict restrictions and measures have been removed, the Group believed that the leasing and advertising activities of the Iogo Workshop Group in China will gradually improve in the long run.

*Business prospects on the Group's principal operations*

Due to the prolonged lockdown in China in the first half of FY2023, the production and principal operation of both our control system and building intelligence businesses, particularly for those operations located in Shanghai and Eastern China regions, were seriously affected and suspended. The Board expects that it will have a negative impact on the financial results and performance of both segments in the short-term future. However, as these principal operations are mainly on corporate project basis in relation to building intelligence solutions, control system and infrastructure and the business nature is not closely related to the pandemic, the Board believes that the operations and financial performance for both businesses will resume and improve gradually for the coming financial year ending 31 March 2024 due to the COVID-19 pandemic situation in China has become stable and the lockdown has been lifted by the Chinese government since the last quarter of FY2023.

Under the rapidly growing markets in the 5G technology, internet-of-things and the internet home technology in China currently, the Board believes that it would secure a sustainable and stable demand for our building intelligence products in the China market and therefore our building intelligence operations will remain competitive in the future. However, in view of the persistent segment loss recorded by the building intelligence business which was attributable to the finance costs and depreciation charge incurred, the Board is continuously considering and assessing any possible restructuring plan on the building intelligence business, including but not limited to asset disposal and business restructuring or disposal, with the aim to optimise its business return. Such plan is also reflected in our recent allotment of new shares of MOX Group Limited, the Company's subsidiary which is principally engaged in the building intelligence business, to a new investor in June 2023, details of which are disclosed in the announcement of the Company dated 23 June 2023. Also, the Group is currently considering to expand the market to overseas by leveraging our manufacturing and procurement capability, in the form of original design manufacturer (ODM) or business solutions and consultations in the areas of green energy, information technology and telecommunications. Should there be any further update or corporate actions as regard to such business restructuring or business expansion as mentioned above, Company will make further announcement(s) in respect thereof from time to time as required by the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Regarding the data centre business, the Board is expected that it will maintain its currently ongoing business on the rental and maintenance service in relation to commercial service robots in the near future. However, the income generated by the data centre business would be maintained at a minimal level. The Company will keep monitoring the market condition and will consider to further develop or expand its data centre business again should there be any recovery on the data centre market.

On 13 June 2023, the Group entered into an agreement for the establishment and operation of a joint venture, which, through its wholly-owned subsidiary, has been operating a virtual asset trading platform ("VATP") in Hong Kong (for details, please refer to the announcement of the Company dated 13 June 2023). In view of the exponential growth in virtual asset-related activities in recent years, combined with the Hong Kong Government's policy initiative to develop Hong Kong into a leading global hub for web3 and virtual asset-related activities as well as recent changes to the regulatory landscape in Hong Kong which provide clearer regulated channels for Hong Kong investors to safely access virtual assets, the Board believes that the adoption of virtual assets in Hong Kong is at an inflection point and expects market demand for virtual asset-related products and services in Hong Kong to increase significantly over coming years from a diversified investor base. Therefore, the investment in the VATP business would enable the Group to seize and capitalise on emerging market opportunities and create new sources of revenue from the transformation of traditional financial markets. The joint venture intends to apply for the requisite licenses through its wholly-owned subsidiary to operate the VATP in Hong Kong and the Company will make announcement(s) for any updates in respect thereof as and when required by the Listing Rules.

*Future fund raising and investment opportunities*

The Company will continue to explore opportunities for new business and investments or mergers and acquisitions which can expand or diversify the Group's business and will bring long-term benefit to the Group. This intention is evidenced by the Group's recent investment and engagement in the VATP business in Hong Kong, of which the details were disclosed in the announcement of the Company dated 13 June 2023. 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 or its subsidiaries. The Company will make announcement(s) in respect thereof as required by the Listing Rules should they materialise.

*Money lending transactions of the Group*

As at 31 March 2023, the Group had two outstanding loan receivables of nil net carrying amount with major terms as follows:

**Key terms of loan receivables**

| Borrowers | Date | Principal amount HK$'000 | Interest rate | Tenor | Collaterals | Outstanding amount as at 31 March 2023 HK$'000 | | Loss allowance as at 31 March 2023 HK$'000 | Carrying amount as at 31 March 2023 HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Debtor 1 | 29 April 2020 | 13,000 | 8% per annum | One month | Mining inventory assets and personal guarantee | 10,087 | ("Receivable 1") | (10,087) | – |
| Debtor 2 | 22 May 2020 | 13,000 (revolving facility maximum) | Interest free | Repayable upon demand | Factory production equipment and machinery | 11,134 | ("Receivable 2") | (11,134) | – |
| | | | | | | 21,221 | | (21,221) | – |

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

*For Debtor 1*

Debtor 1, a business acquaintance of the Group and a party independent of the Company and its connected person, was a corporate which engaged in the trading business and investment and was an active face masks trader with customers overseas in early 2020. In 2020, the Group discussed possible cooperation on face masks trading with Debtor 1, during which the Group reviewed Debtor 1's business plan and forecast with regard to the possible cooperation. In about April 2020, Debtor 1 asked the Group for a short-term working capital fund for its face masks trading business. Considering the outbreak of COVID-19 was still happening in most parts of the world and face masks were in high demand due to mandatory requirement to wear face masks in many countries, and the possible cooperation opportunity on face mask trading, the Group granted a short-term bridging loan of one-month tenor of HK$13 million to Debtor 1 on 29 April 2020 at an interest rate of 8% per annum. In view of the ongoing negotiation on potential cooperation, the loan had no collateral except a personal guarantee at the time of granting of loan. In July 2021, after the prolonged delay in repayment by Debtor 1, the Group further obtained inventory security over certain iron ore inventory located in Malaysia as additional collateral from Debtor 1. As at 31 March 2023, the outstanding amount including the accrued interest was approximately HK$10.1 million.

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

*For Debtor 2*

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

As the face mask factory was still in its initial development and expansion stage and the revolving advances would be granted only by insignificant instalments on case-by-case basis, no collateral was obtained at the time of granting such facility as the initial loan amount was minimal. Also, there was no interest charged at the time of entering into the revolving loan facility as the Group was aiming to secure the potential investment opportunity and cooperation with Debtor 2 in the face mask manufacturing business. As the loan advance amount was getting larger, the Group subsequently requested Debtor 2 for asset security over its factory production equipment and machinery as collateral to protect the Group's interests. As at 31 March 2023, the outstanding amount of Receivable 2 was approximately HK$11.1 million.

Upon the management's individual assessment, having considered that (i) the delay in repayment by Debtor 2 as per agreed repayment schedule upon Group's repayment demand, (ii) the total repayments made by Debtor 2 so far were not significant enough, and (iii) the discussion and negotiation on the settlement arrangement with Debtor 2 were still in progress and no formal or legal binding settlement agreement was executed so far, accordingly, amid the uncertainty posed by the COVID-19 pandemic on the overall economic situation, the Group considered that it should adopt a more prudent and cautious approach by making specific provision for the full outstanding amount particularly for Debtor 2 of HK$11.1 million as its full recoverability was in doubt. As at the date hereof, the Group is still in the ongoing process of discussing and negotiating with Debtor 2 for a mutually agreed repayment schedule with an aim to recover the outstanding receivable amounts as soon as possible.

## INTERNAL CONTROL POLICY AND CREDIT WORTHINESS ASSESSMENTS BEFORE GRANTING OF LOANS

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

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

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

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

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

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

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

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

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

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

## ACTIONS TAKEN TO RECOVER OUTSTANDING LOAN RECEIVABLES

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

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

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

## FINANCIAL REVIEW

*Revenue*

The Group recorded a revenue of approximately HK$60.5 million for the Current Year, representing a decrease of approximately HK$53.7 million or 47.0% as compared to the revenue of approximately HK$114.2 million for the Prior Year.

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

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Building intelligence | **25,766** | **42.6** | 60,373 | 52.9 |
| Control system | **33,977** | **56.1** | 47,337 | 41.5 |
| Data centre | **795** | **1.3** | 6,455 | 5.6 |
| | **60,538** | **100.0** | 114,165 | 100.0 |

The decrease in the Group's revenue for the Current Year was mainly attributable to the lockdown in China in the first half of FY2023 due to the COVID-19 pandemic outbreak, which led to the suspension of the production activities and principal operation for both of our control system and building intelligence businesses, particularly for our principal operations which were located in the Eastern China region like Shanghai and Jiaxing.

*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$39.6 million or 43.4% from approximately HK$91.2 million for FY2022 to approximately HK$51.6 million for FY2023, which is in line with the decrease in sales for the Current Year.

*Gross profit and gross profit margin*

The Group's gross profit for FY2023 was approximately HK$8.9 million, representing a decrease of approximately HK$14.0 million or 61.1% from approximately HK$22.9 million for FY2022, which is in line with the decrease in sales for the Current Year. The gross profit margin for FY2023 also decreased to 14.8% as compared to 20.1% for FY2022, which was mainly due to the comparatively higher fixed costs incurred due to lockdown in China and the cost increment caused by the overall surge in the worldwide pricing for its product components like integrated circuit chips, monitors and touch screens during the Current Year.

*Other income*

The Group's other income represents, among others, interest income, government grants and value-added taxes refund. The other income for the Current Year decreased to HK$3.6 million (2022: HK$6.3 million) mainly due to the reduced value-added tax refunded for the Current Year.

*Net other gains*

The Group recorded increased net other gains of HK$1.8 million (2022: HK$0.2 million) for FY2023 mainly due to a one-off gain of HK$1.8 million (2022: Nil) was recognised in relation to a disposal of office premise property situated in China at a consideration of RMB4.5 million in the Current Year.

*Selling and distribution expenses*

The Group's selling and distribution expenses decreased by approximately HK$2.4 million or 52.2% from approximately HK$4.6 million for the Prior Year to approximately HK$2.2 million for the Current Year, which is in line with the decrease in sales for the Current Year.

*Administrative and other operating expenses*

The administrative and other operating expenses of the Group, which mainly represent the staff costs, depreciation of property, plant and equipment and right-of-use assets and legal and professional fees, amounted to approximately HK$36.8 million for FY2023, which was at a similar level as approximately HK$38.7 million for FY2022.

*Impairment of goodwill recognised for FY2022*

In FY2022, the impairment loss of the Group's goodwill, which is included in "impairment of non-financial assets" in the consolidated statement of profit or loss, was attributable to the Group's control system cash generating unit. The recoverable amount of the cash generating unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and a long-term average growth rate.

Due to the uncertainty of the COVID-19 pandemic during FY2022 on the future performance and cash flow of the control system business, the Company considered to adopt a more prudent and cautious approach towards the long-term growth rate applied on the five-year cash flow projections. As a result, based on management's assessment and by reference to the assessment performed by an independent appraisal firm, the Group recognised an impairment loss of approximately HK$27.9 million for FY2022 for the goodwill attributable to the control system cash generating unit, as the carrying amounts of those assets related to such cash generating unit exceeded their respective recoverable amounts as at 31 March 2022. No impairment loss was recognised for goodwill for FY2023.

*Allowance for expected credit loss, net*

During the Current Year, the Group recorded a net allowance for expected credit loss of HK$7.3 million in relation to its trade receivables, loan and other receivables and amount due from an associate, as compared to HK$62.9 million for the Prior Year which includes a specific provision of HK$23.1 million fully provided for receivables under the Group's individual assessment on its customers and debtors with long outstanding history. In the Prior Year, the Board considered that due to the uncertainty of the COVID-19 pandemic on the overall economic situation in China, the Group should adopt a more prudent and cautious approach towards the recoverability of its long outstanding receivables, particularly for those overdue for over one year without repayment and therefore specific provision was made for those receivables in the Prior Year.

As at 31 March 2023, the Group's trade receivables amounted to HK$47.4 million (2022: HK$47.1 million) and the loan and other receivables amounted to HK$44.9 million (2022: HK$65.9 million), out of which amounts of HK$23.6 million (2022: HK$27.7 million) and HK$41.3 million (2022: HK$40.7 million) were considered impaired for each of the trade receivables and the loan and other receivables respectively. Apart from the specific full provision made according to the Group's individual assessment on long outstanding receivables as disclosed in the previous paragraph, the remaining receivables were assessed based on an expected credit loss model. For the purpose of assessment of expected credit loss, expected loss rates were estimated based on historical observed default rates over the expected life of the debtors and were adjusted for forward looking information that was available without undue costs or effort.

*Finance costs*

The finance costs of the Group was approximately HK$3.8 million for FY2023, mainly represent interest expense on bank borrowings. The decrease in finance costs of approximately HK$0.4 million or 9.5% from approximately HK$4.2 million for FY2022 was due to the decrease in average balance of bank borrowings of the Group during FY2023.

*Loss for the year*

The loss attributable to owners of the Company decreased significantly by approximately HK$68.7 million or 62.6% from approximately HK$109.7 million for the Prior Year to approximately HK$41.0 million for the Current Year, which was mainly attributable to the decrease in expected credit loss for the Group's receivables recognised for the Current Year of approximately HK$7.3 million as compared to HK$62.9 million provided for the Prior Year, and no impairment loss on the Group's goodwill (2022: HK$27.9 million) was recognised in the Current 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 31 March 2023, the issued share capital of the Company was approximately HK$26.0 million (2022: HK$313.1 million), comprising 260,312,640 shares (the "Shares") of the Company (2022: 1,252,363,200 Shares) of nominal value of HK$0.10 each (2022: HK$0.25 each).

On 16 November 2022, the Company conducted the capital reorganisation (the "Capital Reorganisation"), involving (i) the share consolidation (the "Share Consolidation") whereby every five issued and unissued Shares of HK$0.25 each will be consolidated into one consolidated share (the "Consolidated Share") of HK$1.25 each; (ii) the capital reduction (the "Capital Reduction") whereby the par value of each issued Consolidated Share will be reduced from HK$1.25 to HK$0.10 by cancelling the paid up share capital to the extent of HK$1.15 per issued Consolidated Share so that following such reduction, each issued Consolidated Share in the share capital of the Company shall become one new share (the "New Share") with a par value of HK$0.10 each; and (iii) the sub-division (the "Sub-division"), immediately following the Share Consolidation and the Capital Reduction becoming effective, whereby each authorised but unissued Consolidated Share will be sub-divided into 12.5 New Shares with a par value of HK$0.10 each. It was further proposed that (i) the board lot size for trading in the Shares on the Stock Exchange would be changed from 3,200 Shares to 6,400 Consolidated Shares conditional upon the Share Consolidation becoming effective, and (ii) the credit arising from the Capital Reduction would be applied towards offsetting the Company's accumulated losses upon the Capital Reduction becoming effective.

The Share Consolidation became effective on 22 December 2022 upon the passing of resolutions by the Shareholders at an extraordinary general meeting of the Company held on 20 December 2022. The Capital Reduction and the Sub-division became effective on 9 March 2023 upon, among others, the further obtaining of a court order by the Company made by the Grand Court of the Cayman Islands confirming the Capital Reduction. For details of the Capital Reorganisation and the proposed change in board lot size, please refer to the announcements of the Company dated 16 November 2022, 20 December 2022, 27 January 2023 and 9 March 2023 respectively, and the circular of the Company dated 2 December 2022.

In the Prior Year, on 13 January 2022, the Company entered into a placing agreement (the "2022 First Placing Agreement") with Silverbricks Securities Company Limited (the "2022 Placing Agent"), pursuant to which the Company conditionally agreed to place, through the 2022 Placing Agent on a best effort basis, up to 58,000,000 placing shares of the Company of nominal value of HK$0.25 each (the "2022 First Placing Share(s)") at the price (the "2022 First Placing Price") of HK$0.25 per 2022 First Placing Share to not less than six independent placees (the "2022 First Placing"). The 2022 First Placing Price represented a premium of approximately 32.98% to the closing price of HK$0.188 per Share as quoted on the Stock Exchange on 13 January 2022, being the date of the 2022 First Placing Agreement. The Board considered that the 2022 First Placing would strengthen the Group's financial position, broaden the Company's shareholder base and would provide financial flexibility to the Company should any investment opportunity arise and for the expansion of the existing business, particularly under the unfavourable COVID-19 pandemic situation. Accordingly, the Directors were of the view that the 2022 First Placing was in the interests of the Company and the Shareholders as a whole.

The completion of the 2022 First Placing took place on 25 January 2022 and an aggregate of 58,000,000 2022 First Placing Shares were issued and allotted by the Company to not less than six independent placees who were corporate or individual investors for cash at the 2022 First Placing Price of HK$0.25 per 2022 First Placing Share, representing approximately 4.63% of the then issued share capital of the Company as enlarged by the allotment and issue of the 2022 First Placing Shares immediately upon completion of the 2022 First Placing. The aggregate nominal value of the 2022 First Placing Shares issued and allotted pursuant to the 2022 First Placing was HK$14.5 million. The net proceeds from the 2022 First Placing, after deduction of expenses related to the 2022 First Placing, amounted to approximately HK$14.2 million, representing a net price of approximately HK$0.245 per 2022 First Placing Share, which were intended to be used as the Group's general working capital and/or for future investments of the Group as and when the opportunities arise.

As at 31 March 2022, the net proceeds from the 2022 First Placing of approximately HK$10.1 million were utilised during the Prior Year as intended for the Group's general working capital and for investment opportunities of the Group with details disclosed in the 2022 annual report of the Company. The remaining net proceeds of approximately HK$4.1 million were fully utilised during the Current Year as intended for the Group's general working capital and for investment opportunities of the Group as previously disclosed with details as follows:

| Description of use of proceeds | Amount (in HK$ million) |
|---|---|
| Rental expenses and management fee | 0.7 |
| Staff salaries and pension contribution | 0.7 |
| Advance to an associate | 0.6 |
| Net increase in loan and other receivables | 1.3 |
| Other administrative and operating uses | 0.8 |
| Total | 4.1 |

In the Current Year, on 22 September 2022, the Company entered into another placing agreement (the "2022 Second Placing Agreement") with the 2022 Placing Agent, pursuant to which the Company conditionally agreed to place, through the 2022 Placing Agent on a best effort basis, up to 49,200,000 placing shares of the Company of nominal value of HK$0.25 each (the "2022 Second Placing Share(s)") at the price (the "2022 Second Placing Price") of HK$0.25 per 2022 Second Placing Share to independent placee(s) (the "2022 Second Placing"). The 2022 Second Placing Price represented a premium of approximately 72.41% to the closing price of HK$0.145 per Share as quoted on the Stock Exchange on 22 September 2022, being the date of the 2022 Second Placing Agreement. The Board considered that the 2022 Second Placing would strengthen the Group's financial position, broaden the Company's shareholder base and would provide financial flexibility to the Company should any investment opportunity arise and for the expansion of the existing business, particularly under the unfavourable COVID-19 pandemic situation. Accordingly, the Directors were of the view that the 2022 Second Placing was in the interests of the Company and the Shareholders as a whole.

The completion of the 2022 Second Placing took place on 3 October 2022 and an aggregate of 49,200,000 2022 Second Placing Shares were issued and allotted by the Company to an independent placee, namely Ms. Li Chung Man who was an individual investor and an independent third party, for cash at the 2022 Second Placing Price of HK$0.25 per 2022 Second Placing Share, representing approximately 3.78% of the issued share capital of the Company as enlarged by the allotment and issue of the 2022 Second Placing Shares immediately upon completion of the 2022 Second Placing. The aggregate nominal value of the 2022 Second Placing Shares issued and allotted pursuant to the 2022 Second Placing was HK$12.3 million. The net proceeds from the 2022 Second Placing, after deduction of expenses related to the 2022 Second Placing, amounted to approximately HK$12.1 million, representing a net price of approximately HK$0.246 per 2022 Second Placing Share, which were intended to be used as the Group's general working capital and/or for future investments of the Group as and when the opportunities arise. As at 31 March 2023, the net proceeds from the 2022 Second Placing of approximately HK$12.1 million were fully utilised during the Current Year as intended for the Group's general working capital and for investment opportunities of the Group as previously disclosed with details as follows:

| **Description of use of proceeds** | **Amount** (in HK$ million) |
|---|---|
| Staff salaries and pension contribution | 2.2 |
| Rental expenses and management fee | 1.5 |
| Legal and professional fees | 0.4 |
| Advance to an associate | 3.7 |
| Other general working capital of the Group | 4.3 |
| Total | 12.1 |

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 31 March 2023 was approximately 0.7 (2022: approximately 0.8). Gearing ratio calculated by total borrowings (comprising bank borrowings and lease liabilities) net of cash and cash equivalents, over total equity as at 31 March 2023 was 96% (2022: 70%).

*Bank borrowings*

As at 31 March 2023, the Group had outstanding bank borrowings of approximately HK$62.8 million (2022: approximately HK$72.3 million).

*Pledge of assets*

As at 31 March 2023, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK$32.4 million (2022: approximately HK$40.6 million) pledged against bank borrowings raised by the Group.

*Contingent liabilities*

As at 31 March 2023, the Group had no material contingent liabilities.

*Major acquisition and disposal*

The Group had no other major acquisition or disposal transactions during the year ended 31 March 2023.

*Significant capital expenditure for the year*

Save as disclosed elsewhere in this report, the Group had no significant capital expenditure commitments as at 31 March 2023.

*Risk of foreign exchange fluctuations*

Substantially all transactions of the Group are denominated in Renminbi ("RMB") and HK$ and most of the bank deposits are denominated in RMB and HK$ to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against HK$ during the Current Year, 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 31 March 2023.

*Employee and remuneration policy*

As at 31 March 2023, the Group had 115 (2022: 123) employees. For the year ended 31 March 2023, the staff costs of the Group amounted to approximately HK$19.6 million, representing a decrease of approximately HK$2.9 million or 12.9% as compared to approximately HK$22.5 million for the corresponding period last year, mainly due to the decrease in number of the Group's employees during the Current Year.

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. As the Company's previous share option scheme lapsed upon its expiry on 22 March 2022, the Company adopted a new share option scheme on 2 September 2022 and eligible participants of which may be granted the share options to subscribe for the Shares in order to enable the Company to grant options to its employees, executives or officers who are contributing to the Group as their incentives and rewards. As at 31 March 2023, no share options were outstanding under any share option schemes of the Company.

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

## EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

### 1. PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On 3 May 2023, the Company entered into a placing agreement (the "2023 Placing Agreement") with Sinomax Securities Limited (the "2023 Placing Agent"), pursuant to which the Company conditionally agreed to place, through the 2023 Placing Agent on a best effort basis, up to 40,000,000 placing shares of the Company of nominal value of HK$0.10 each (the "2023 Placing Shares") at the price (the "2023 Placing Price") of HK$0.375 per 2023 Placing Share to not less than six independent placees (the "2023 Placing"). The 2023 Placing Price represented a discount of approximately 14.77% to the closing price of HK$0.44 per Share as quoted on the Stock Exchange on 3 May 2023, being the date of the 2023 Placing Agreement. The Board considered that the 2023 Placing would strengthen the Group's financial position, broaden the Company's shareholder base and would provide financial flexibility to the Company should any investment opportunity arise and for the expansion of the existing business, particularly under the prevailing high interest rate environment. Accordingly, the Directors were of the view that the 2023 Placing was in the interests of the Company and the Shareholders as a whole.

The completion of the 2023 Placing took place on 19 May 2023 and an aggregate of 40,000,000 2023 Placing Shares were issued and allotted by the Company to not less than six independent placees who were individual investors for cash at the 2023 Placing Price of HK$0.375 per 2023 Placing Share, representing approximately 13.32% of the issued share capital of the Company as enlarged by the allotment and issue of the 2023 Placing Shares immediately upon completion of the 2023 Placing. The aggregate nominal value of the 2023 Placing Shares issued and allotted pursuant to the 2023 Placing was HK$4 million. The net proceeds from the 2023 Placing, after deduction of expenses related to the 2023 Placing, amounted to approximately HK$14.7 million, representing a net price of approximately HK$0.3675 per 2023 Placing Share, which were intended to be used as the Group's general working capital and/or for future investments of the Group as and when the opportunities arise. For further details, please refer to the announcements of the Company dated 3 May 2023 and 19 May 2023, respectively.

### 2. APPOINTMENT OF EXECUTIVE DIRECTOR AND CO-CHIEF EXECUTIVE OFFICER AND INDEPENDENT NON-EXECUTIVE DIRECTOR

On 19 May 2023, (1) Mr. Chong Alex Tin Yam ("Mr. Chong") has been appointed as the executive Director and the co-chief executive officer of the Company; and (2) Mr. Cheng Nicholas Tat Hei ("Mr. Cheng") has been appointed as the independent non-executive Director. Both Mr. Chong and Mr. Cheng are subject to retirement at the next annual general meeting of the Company, upon which each of them would be eligible for re-election.

## 3. ENGAGEMENT IN VIRTUAL ASSET-RELATED ACTIVITIES

On 13 June 2023, Radio World Holding Limited (a direct wholly-owned subsidiary of the Company) ("Radio World") entered into a subscription and shareholders agreement with JPEX Holdings Limited ("JPEX"), Fung Wong International Group Holdings Limited ("Fung Wong") and Jade Power Lab Technology Group Limited ("Jade Power") in relation to a joint venture in Jade Power for the operation of the VATP. Radio World, JPEX and Fung Wong would hold 51%, 25% and 24% (among which 10% would be held on trust by Fung Wong for the purpose of future grant to key personnel as long-term incentives for contributing to Jade Power and the Operator (as defined below)) of Jade Power's issued shares, respectively. Radio World would pay its subscription amount to Jade Power fully in cash, whilst JPEX would provide technology services to Jade Power in satisfaction of all of its subscription amount and Fung Wong would provide consultancy and advisory services to Jade Power in satisfaction of all of its subscription amount.

The sole business of Jade Power initially would be to operate a VATP in Hong Kong. The VATP would be operated by a direct wholly-owned subsidiary of Jade Power (the "Operator") which had been operating in Hong Kong since May 2023. The Operator intended to apply to the Securities and Futures Commission of Hong Kong for the requisite licenses to operate the VATP in Hong Kong.

In view of the exponential growth in virtual asset-related activities in recent years, combined with the Hong Kong Government's policy initiative to develop Hong Kong into a leading global hub for web3 and virtual asset-related activities as well as recent changes to the regulatory landscape in Hong Kong which provide clearer regulated channels for Hong Kong investors to safely access virtual assets, the Group believes that the adoption of virtual assets in Hong Kong is at an inflection point and expects market demand for virtual asset-related products and services in Hong Kong to increase significantly over coming years from a diversified investor base. Therefore, the Board believed that expanding the Group's business operations to include virtual asset-related activities would enable the Group to capitalize on emerging market opportunities and create new sources of revenue from the transformation of traditional financial markets. For further details, please refer to the announcement of the Company dated 13 June 2023.

4. INVESTMENT IN MOX GROUP LIMITED BY A SUBSCRIBER UNDER A SHARE SUBSCRIPTION AGREEMENT

On 23 June 2023, MOX Group Limited ("MOX") (an indirect 85%-owned subsidiary of the Company), as issuer, entered into a subscription agreement (the "MOX Subscription Agreement") with Hong Kong Haoxuan Co., Limited (the "Subscriber"), as subscriber, and Zhang Pangfei, as guarantor, pursuant to which the Subscriber had agreed to subscribe for, and MOX had agreed to allot and issue to the Subscriber 25,000 new subscription shares of MOX (the "Subscription Shares"), representing approximately 33.33% of the issued share capital of MOX as enlarged by the allotment and issue of the Subscription Shares, at the aggregate subscription price of RMB25,000,000 (the "MOX Subscription"). The net proceeds arising from the MOX Subscription would be used for general working capital and repayment of borrowings of a MOX's subsidiary.

MOX and its subsidiaries (the "MOX Group") are principally engaged in the Group's building intelligence business. Immediately following the completion of the MOX Subscription, the effective interests in MOX by the Group will become approximately 56.67% and MOX will remain as an indirect non-wholly owned subsidiary of the Company. As recent financial performance of the Group's building intelligence business was unfavourable, the Board considered that the MOX Subscription would enhance the financial position of MOX and support the Group's building intelligence business by providing an additional source of funding to the MOX Group. It also represented a good opportunity to broaden MOX's shareholder base and capital base and could demonstrate a positive prospect of the Group's building intelligence business which might further attract potential investments in MOX and/or in the Group. As at the date hereof, the MOX Subscription has not yet completed and the completion is expected to take place on 24 July 2023 pursuant to the MOX Subscription Agreement. For further details, please refer to the announcement of the Company dated 23 June 2023.

Save as disclosed above, there were no other significant events that have occurred subsequent to the end of the reporting period and up to the date of this annual report.

## DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2023.

# DIRECTORS

## DIRECTORS

### EXECUTIVE DIRECTORS

**Han Weining (韓衛寧*)**, ("Mr. Han"), aged 61, was appointed as an executive Director and the chief executive officer of the Company for a term of three years (subject to rotation and re-election) in February 2011 and June 2015, respectively. Mr. Han is currently the co-chief executive officer of the Company and is also a director of certain subsidiaries of the Company. From 1989 to 2006, he worked at Citect Corporation Limited, later acquired by Schneider Electric and his last position was the director of Asia pacific. Mr. Han also served as an executive director of MOX Group in Australia. Mr. Han graduated from Zhejiang University (浙江大學) majoring in Wireless Electronic Technology and Master Degree in Engineering in 1983 and 1986, respectively. He was elected as a member of the Institution of Engineers in Australia in 1994. Mr. Han is the sole director and sole shareholder of Excel Time Investments Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO").

**Chong Alex Tin Yam (莊天任)**, ("Mr. Chong"), aged 51, was appointed as an executive Director and the co-chief executive officer of the Company for a term of three years (subject to rotation and re-election) in May 2023. Mr. Chong is a certified management accountant (fellow) of the Institute of Certified Management Accountants, Australia. He graduated from University of Toronto in Canada with a bachelor of commerce degree and completed an advanced study program in global economics at Massachusetts Institute of Technology (MIT) in the United States of America (the "USA"). Mr. Chong possesses more than 20 years of investment, financial advisory and compliance experiences in the Asia and the USA markets and has been actively involved in blockchain related businesses since 2020. He has co-developed a Web3.0/Metaverse project and as its chief financial officer and executive director, he is responsible for overseeing its digital asset's trading platform and tokenomics. He is currently the co-founder and partner of a Web3.0 venture capital and consulting firm and was previously a member of the board of directors of NutryFarm International Limited (Singapore main board listed and formerly named LottVision Limited) from 2006 to 2008. Mr. Chong is also an independent non-executive director of CBK Holdings Limited (Hong Kong GEM Board listed).

**Wang Jie (王潔)**, ("Ms. Wang"), aged 35, was appointed as an executive Director for a term of one year (subject to rotation and re-election) in July 2021. Ms. Wang graduated from Jiangxi University of Science and Technology with Diploma in Marketing. Ms. Wang possesses extensive experience in sales and marketing and was the Sales Director of Shenzhen Westofit Biological Technology Co., Ltd. (深圳市西倍健生物工程股份有限公司), a professional children's nutrition products company based in Shenzhen, from 2018 to 2020 and was mainly responsible for the sales and marketing strategies and activities for the Asia Pacific region.

### NON-EXECUTIVE DIRECTOR

**Wong Hoi Lok (黃海樂)**, ("Mr. Wong"), aged 38, was appointed as a non-executive Director for a term of three years (subject to rotation and re-election) in July 2023. Mr. Wong has more than 16 years of work experience in the financial industry covering different sectors including banking, asset management, corporate finance, trust, funds, insurance, crypto exchange platforms and virtual assets. Mr. Wong worked in several reputable financial institutions as a senior management and supervised the compliance and anti-money laundering ("AML") functions for more than 10 years, and since October 2022, he has been the deputy head of legal and compliance and associate director of a listed company in Hong Kong, where he is mainly responsible for the compliance and AML functions of the company and the supervision and management of the relevant team.

* *For identification purpose only*

Mr. Wong has also been a council member of the Hong Kong Securities and Futures Professionals Association since July 2022 to provide support and contributions to the financial industry using his practical knowledge in areas such as compliance, AML, internal control, risk management and financial technology. He is currently pursuing Master of Laws (LLM) in Corporate Governance at the University of Cumbria, United Kingdom.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Lam Ying Hung Andy (林英鴻)**, ("Mr. Lam"), aged 58, was appointed as an independent non-executive Director for a term of three years (subject to rotation and re-election) in February 2011. He is the chairman of the audit committee of the Company (the "Audit Committee") and a member of each of the nomination committee (the "Nomination Committee") of the Company and the Remuneration Committee. Mr. Lam has over 26 years of experience in logistics, accounting, banking and finance industry. He is a fellow of the Association of Chartered Certified Accountants (United Kingdom), a member of the Hong Kong Institute of Company Secretaries, the Institute of Chartered Secretaries and Administrators (United Kingdom) and the Chartered Institute of Bankers. Mr. Lam obtained his postgraduate diploma in corporate administration, master degree of professional accounting and master degree in Ecommerce for executives from the Hong Kong Polytechnic University in 1997, 1999 and 2004 respectively. He is currently the managing consultant of Lontreprise Consulting Limited, and had been the finance director and administrative accountant in two logistics companies. Mr. Lam is currently an independent non-executive director of each of Xingfa Aluminum Holdings Limited (Stock Code: 0098), Litu Holdings Limited (formerly known as Brilliant Circle Holdings International Limited) (Stock Code: 1008) and Weiye Holdings Limited (Stock Code: 1570), the shares of all of the above companies are listed on the Main Board of the Stock Exchange.

**Wang Chen (王忱)** ("Mr. Wang"), aged 58, was appointed as an independent non-executive Director for a term of three years (subject to rotation and re-election) in June 2015. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Mr. Wang holds a Bachelor of Engineering degree in Microwave Communication Engineering from PLA Institute of Communication Engineering (中國人民解放軍通信工程學院) (now known as PLA University of Science and Technology) and a degree of Executive Master of Business Administration (EMBA) from the School of Business, Sun Yat-Sen University (中山大學). From 1986 to 2006, he worked in the Information Technology Department of the People's Liberation Army General Staff. From 2006 to 2021, Mr. Wang is the chairman of Guangzhou SKYI Information Technology Co., Ltd. (廣州市天奕信息技術股份有限公司), a company established in 2006 and its shares quoted on the National Equities Exchange and Quotations System (the New Third Board*) in China from 9 May 2017 to 14 October 2020 (Stock Code: 871411) and is principally engaged in development on software of quality assurance and general automated test system. Since January 2022, Mr. Wang has been the chairman of Guangzhou Yijingyun Technology Co. Ltd. (廣州市奕經雲科技有限公司), a company principally engaged in the business of pulse diagnosis platform and solutions in China.

* *For identification purpose only*

**Li Mingqi (李明綺)** ("Ms. Li"), aged 55, was appointed as an independent non-executive Director for a term of three years (subject to rotation and re-election) in October 2016. She is the chairperson of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Ms. Li graduated from Fudan University in Shanghai with a Bachelor's degree in Economics. She has also obtained a Master's degree in Economics from the Southern Methodist University and a Master's degree in Management and Administrative Sciences from the University of Texas. Ms. Li is a Certified Public Accountant in the State of New York, the United States of America and was licensed under license series 7 and 63 at the registered representative level in the United States of America from May 2019. She has extensive experience in financial management. Ms. Li was a senior associate of JP Morgan Chase, associate/ portfolio manager of BHF Capital, vice president of Transamerica Business Capital, vice president of Morgan Stanley and hedge fund controller of Mercury Capital Management. She was also an independent non-executive director of Sino Gas International Holdings, Inc., whose shares were previously listed on the Over-The-Counter Bulletin Board in the United States of America, from March 2011 to November 2014. Ms. Li served as a business consultant of Seekers Advisors H.K. Limited from May 2015 to August 2016 and is currently a registered representative of Emerson Equity LLC and an independent non-executive director of Neo-Neon Holdings Limited (Stock Code: 1868), whose shares are listed on the Main Board of the Stock Exchange.

**Cheng Nicholas Tat Hei (鄭達浠)**, ("Mr. Cheng"), aged 37, was appointed as an independent non-executive Director for a term of three years (subject to rotation and re-election) in May 2023. Mr. Cheng graduated from Monash University in Australia with bachelor of commerce and bachelor of business system degrees and he further obtained a master of business administration degree from the University of Hong Kong. He is a certified public accountant of the CPA Australia and is a member of the Hong Kong Securities and Investment Institute. Mr. Cheng possesses more than 15 years' experience in the field of accounting, auditing, investment and corporate finance.

# REPORT OF THE DIRECTORS

The Directors are pleased to present the Company's annual report together with the audited consolidated financial statements of the Group for the year ended 31 March 2023.

## CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 18 April 2012, the shares of the Company successfully commenced dealing on the Main Board of the Stock Exchange.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal operations of the Group are conducted in the PRC and Hong Kong. The principal businesses of the Group include provision of (i) design, development and sales of automation control systems and solutions, (ii) design, research and development, manufacture and sales of intelligent systems including video intercom and surveillance systems for residential homes and buildings, and (iii) rental, maintenance, other related services in relation to computer equipment and machines, information technology infrastructure, and advanced technologies such as robots. Particulars of principal activities of the principal subsidiaries of the Company are set out in note 17 to the financial statements.

Further discussion and analysis of these activities, including an indication of likely future developments in the Group's business, can be found in the Co-CEOs' Statement and the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this Directors' Report.

Details of key performance indicators are shown in the "Financial Highlights" and "Management Discussion and Analysis" of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's businesses, financial condition, results of operations and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's businesses, financial conditions, results of operations or growth prospects differing materially from expected or historical results. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

## BUSINESS/MARKET RISKS

The Group's revenue is mainly derived from customers located in the PRC. The Group undertakes the risks associated with China, including risk of change in the policies and regulations, technological obsolescence, supply and demand imbalance, and overall economic conditions. Business/market risks may adversely affect the Group's business, financial and/or operating performance.

The functional manager will carefully scrutinise each project for related risks and returns. These include assessment of relevant government policies, market demand, market conditions and economic data. The management is responsible for supervision, conducting regular operational reviews and keeping the Board fully informed through regular reports (either in written or verbal form), and prompt decisions can therefore be made if changes are required.

## OPERATIONAL RISK

The front-line or functional manager will review key activities of the Group and ensures all material required control procedures, including financial and operational, are functioning implemented. Precautionary and contingency measures are also set up to ensure the Group is protected against major potential loss, damage or impact to the business operations.

## FINANCIAL RISK

The Group's business operation is exposed to risks from exchange rates, interest rates and liquidity. Please also refer to note 29 to the financial statements for discussion of the financial risks facing by the Group.

## COMPLIANCE RISKS

Front-line or functional manager reviews key activities of the Group to ensure the compliance of local rules and regulations from time to time. The responsible persons of each of the major subsidiaries are required to communicate and consult with local legal advisors in daily operations or for material transactions if necessary. The Group has implemented certain internal control procedures to avoid/reduce the risk of non-compliance of local rules and regulations as well as the requirements of the Listing Rules.

### KEY RELATIONSHIPS

*(a) Employees*

Human resources are one of the greatest assets of the Group and the Group ensures all staff are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety. The Group maintains a good relationship with its employees. Staff salary payment and promotion will be measured against their progressive performance level, contribution, and achievement against the objectives set by the Group. The annual performance evaluation will be conducted annually.

*(b) Customers*

To maintain customer intimacy and keep good relationship with key customers, the Group has implemented a series of policies including the promotion of new products to customers, offered free testing and the provision of after sales and maintenance services.

*(c) Suppliers*

The Group has developed stable relationships with many of its key suppliers and implements stringent selection criteria for raw materials suppliers and product parts and components suppliers to maintain the quality of its products. The Group only procures raw materials and parts and components from suppliers who have passed its quality and reliability tests. The Group randomly inspects test samples of raw materials and product parts from its suppliers and return those that do not pass the inspection. Every year the Group will also conduct annual appraisal on key suppliers and new suppliers so as to ensure materials produced by these suppliers are in line with the Group's quality requirement.

Further discussion on the key relationships is set out in the Environmental, Social and Governance Report set out in this annual report.

## ENVIRONMENTAL POLICIES

The Group is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimise our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

Further discussion on the environmental policies is set out in the Environmental, Social and Governance Report set out in this annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all PRC laws and applicable laws in the jurisdictions where it has operations. During the year ended 31 March 2023 and up to the date of this annual report, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 87 to 88 of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31 March 2023.

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 30 August 2023 ("2023 AGM"), the register of members of the Company will be closed from Friday, 25 August 2023 to Wednesday, 30 August 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2023 AGM, all transfer of Shares accompanied by the relevant share certificate(s) must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 24 August 2023.

## FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the five financial years ended 31 March 2023 is set out on page 176 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 March 2023, together with the reasons therefore, are set out in note 27(b) to the financial statements. Details of change in the capital structure of the Company are set out in the paragraph headed "Capital structure, liquidity and financial resources" in the section headed "Management Discussion and Analysis" of this annual report.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or, applicable laws of the Cayman Islands which would oblige the Company to offer new shares of the Company on a pro rata basis to the Shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2023.

## RESERVES

The movements in the reserves of the Company and the Group during the year ended 31 March 2023 are set out in note 27 to the financial statements and in the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

As at 31 March 2023, the aggregate amount of reserves available for distribution to owners of the Company, which included accumulated losses and share premium, was nil (2022: Nil).

## MAJOR SUPPLIERS AND CUSTOMERS

The information in respect of the Group's revenue from sales of goods or rendering of services attributable to the major customers and purchases attributable to the major suppliers during the year ended 31 March 2023 is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | Revenue | Purchases |
| The largest customer | 10.7% | |
| Five largest customers in aggregate | 37.2% | |
| The largest supplier | | 27.3% |
| Five largest suppliers in aggregate | | 44.2% |

At all time during the year ended 31 March 2023, none of the Directors or any of their close associates or any Shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or the five largest customers.

## DIRECTORS

The Directors during the year ended 31 March 2023 and up to the date of publication of this annual report are as follows:

### EXECUTIVE DIRECTORS

Mr. Han Weining *(Co-Chief Executive Officer)*
Mr. Chong Alex Tin Yam *(Co-Chief Executive Officer)* (appointed on 19 May 2023)
Ms. Wang Jie

### NON-EXECUTIVE DIRECTOR

Mr. Wong Hoi Lok (appointed on 24 July 2023)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ying Hung Andy
Mr. Wang Chen
Ms. Li Mingqi
Mr. Cheng Nicholas Tat Hei (appointed on 19 May 2023)

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. and the Board considered that each of the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

In accordance with the Articles of Association, Ms. Wang Jie and Mr. Wang Chen shall retire by rotation at the 2023 AGM for re-election. However, the Board has been informed by Ms. Wang and Mr. Wang that they will retire as executive Director and independent non-executive Director, respectively, after the conclusion of the 2023 AGM, in order to devote more time to personal businesses and will not offer themselves for re-election at the 2023 AGM. Hence, at the 2023 AGM, (1) Ms. Wang and Mr. Wang will voluntarily retire from office as an executive Director and an independent non-executive Director, respectively, and, despite being eligible, will not offer herself/himself for re-election; while (2) Mr. Han Weining and Ms. Li Mingqi will voluntarily retire from office and, being eligible, offer each of themselves for re-election as an executive Director and an independent non-executive Director, respectively.

On 19 May 2023, Mr. Chong Alex Tin Yam and Mr. Cheng Nicholas Tat Hei were appointed as the executive Director and the independent non-executive Director respectively; while on 24 July 2023, Mr. Wong Hoi Lok was appointed as the non-executive Director. In accordance with the Articles of Association, Mr. Chong, Mr. Wong and Mr. Cheng will retire at the 2023 AGM and, being eligible, will offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2023 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence as at the end of the year or at any time during the year ended 31 March 2023.

## PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The Articles of Association provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Save for the above, at no time during the year ended 31 March 2023 and up to the date of this annual report, there was or is, any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

## EMOLUMENT POLICY

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 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, and decided by the Board, as authorised by the Shareholders at the annual general meeting, in accordance with the Group's operating results, individual performance and comparable market statistics. As the Company's previous share option scheme lapsed upon its expiry on 22 March 2022, the Company adopted a new share option scheme on 2 September 2022 and eligible participants of which may be granted the share options to subscribe for the shares of the Company in order to enable the Company to grant options to its employees, executives or officers who are contributing to the Group as their incentives and rewards. As at 31 March 2023, no share options were outstanding under any share option schemes of the Company.

The Group has been committing resources in continuing education and training programs 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, ranging from technical training for production staff to financial and administrative trainings for management staff.

## DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 March 2023.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of Directors nor their respective close associates (as defined in the Listing Rules) had engaged in or were interested in any business which competed or was likely to compete, either directly or indirectly, with business of the Group during the year ended 31 March 2023.

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

As at 31 March 2023, the interests and short positions of the Directors and chief executive of the Company in any of the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

### LONG POSITIONS IN SHARES

| Name of Director | Capacity/Nature of interest | Number of Shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Han Weining | Interest of a controlled corporation | 54,227,451 *(Note)* | 20.83% |
| | Beneficial owner | 1,632,000 | 0.63% |

*Note:* These interests in Shares are held by Excel Time Investments Limited ("Excel Time"), which is wholly and beneficially owned by Mr. Han Weining, the co-chief executive officer of the Company and an executive Director. By virtue of the SFO, Mr. Han Weining is deemed to be interested in these 54,227,451 Shares. Mr. Han Weining is the sole director of Excel Time.

Save as disclosed above, as at 31 March 2023, 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 year ended 31 March 2023 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 31 March 2023, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

### LONG POSITION IN SHARES

| Name of Shareholder | Capacity/Nature of interest | Number of Shares held | Approximate percentage of issued Shares *(Note 1)* |
|---|---|---|---|
| Excel Time | Beneficial owner | 54,227,451 *(Note 2)* | 20.83% |
| Lam Siu Sun | Beneficial owner | 35,716,480 | 13.72% |

*Notes:*

1. Based on 260,312,640 Shares in issue as at 31 March 2023.

2. Excel Time is wholly-owned by Mr. Han Weining, the co-chief executive officer of the Company and an executive Director whose interest in Shares is set out in the above section headed "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures of the Company or its associated corporations".

Save as disclosed above, as at 31 March 2023, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying shares of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 2 September 2022 and shall be valid until 1 September 2032, whereby the Board or a duly authorised committee thereof may at any time on any business day following the date of adoption and before the tenth anniversary thereof, offer to grant to eligible participants an option to subscribe for shares of the Company as incentives or rewards for their contribution to the Group. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.

The Board may at its discretion invite anyone belonging to any of the following classes of persons to take up options to subscribe for Shares, subject to such conditions as the Board may think fit, which includes (i) any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time) of the Group or any entity in which the Company or any its subsidiary holds any interest (the "Invested Entity"), and (ii) any discretionary trust who discretionary objects include any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time) of the Group or any Invested Entity. For the purpose of the Share Option Scheme, the options may be granted to any corporation wholly-owned by any person belonging to class (i) mentioned above. The eligibility of any of the above persons to the grant of any option shall be determined by the Board from time to time on the basis of his contribution to the development and growth of the Group. The Company shall be entitled to cancel any option granted to a grantee but not exercised if such grantee fails to meet the eligibility criteria determined by the Board.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company (the "Scheme Mandate Limit") must not, in aggregate, exceed 10% of the Shares in issue as at the date of approval of the Share Option Scheme by the Shareholders, unless Shareholders' approval has been obtained to refresh the Scheme Mandate Limit in general meeting from time to time or to grant options beyond the Scheme Mandate Limited. Share options lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme for the time being of the Company shall not, in aggregate, exceed 30% of the Shares in issue from time to time. No option may be granted under the Share Option Scheme or any other share option scheme of the Company if it would result in the above-mentioned 30% limit being exceeded. The total number of Shares issued and to be issued upon exercise of the options granted to an eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue from time to time unless, among others, approval by Shareholders in a general meeting is obtained. The Share Option Scheme does not specify a minimum period for which an option must be held. The Board may, at its discretion, fix any minimum period for which an option must be held. An option shall be exercisable at any time during such period(s) to be notified by the Board to each grantee, provided that no option shall be exercisable later than 10 years after its date of grant.

The subscription price in respect of any option shall be at the discretion of the Board, provided that it shall be not less than the highest of (i) the closing price of a Share on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the offer date, which must be a business day; (ii) the average closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the offer date in respect of such options; and (iii) the nominal value of a Share.

As at 31 March 2022 and 2023, there was no outstanding share options under the Share Option Scheme or any other share option scheme of the Company. During the year ended 31 March 2023, there was no share option granted, exercised, lapsed or cancelled.

The total number of Shares available for issue under the Share Option Scheme is 25,047,264 Shares, representing approximately 8.34% of the total number of Shares in issue as at the date of this report.

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

Change in Director's information since the date of the 2022 interim report of the Company up to the date of publication of this annual report is set out below:

– On 19 May 2023, Mr. Chong Alex Tin Yam ("Mr. Chong") was appointed as the executive Director and the co-chief executive officer of the Company and Mr. Cheng Nicholas Tat Hei ("Mr. Cheng") was appointed as the independent non-executive Director. Both Mr. Chong and Mr. Cheng would be subject to retirement at the 2023 AGM, upon which each of them would be eligible for re-election. Following the appointment of Mr. Chong, Mr. Han Weining, the executive Director and the then chief executive officer of the Company, became the co-chief executive officer of the Company.

– On 24 July 2023, Mr. Wong Hoi Lok was appointed as the non-executive Director and he would be subject to retirement and eligible for re-election at the 2023 AGM.

## CODE ON CORPORATE GOVERNANCE PRACTICES

A report on the principal corporate governance practice adopted by the Company is set out on pages 39 to 54 of this annual report.

## CONNECTED TRANSACTION

During the year ended 31 March 2023, the Directors are not aware of any transactions of the Group which constituted non-exempt connected transactions or non-exempt continuing connected transactions under the Listing Rules.

## RELATED PARTY TRANSACTIONS

During the year ended 31 March 2023, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards but these transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are set out in note 32 to the financial statements.

## EQUITY-LINKED AGREEMENT

Save for the Share Option Scheme as disclosed in the paragraph headed "Share Option Scheme" of this report and the 2022 Second Placing Agreement as disclosed in the paragraph headed "Capital structure, liquidity and financial resources" in the section headed "Management Discussion and Analysis" of this annual report, no equity-linked agreements were entered into by the Company during the year ended 31 March 2023 or subsisted at the end of the year.

## SHARES ISSUED DURING THE YEAR

On 3 October 2022, the Company allotted and issued 49,200,000 new placing shares of the Company of nominal value of HK$0.25 each to an independent party, namely Ms. Li Chung Man, for cash at the placing price of HK$0.25 per share upon completion of the 2022 Second Placing. The gross proceeds and net proceeds arising from such share allotment amounted to HK$12.3 million and approximately HK$12.1 million respectively, which have been fully utilised as the Group's general working capital and for investment opportunities of the Group during the year.

The Directors considered that the allotment of new shares pursuant to the 2022 Second Placing would provide additional and immediate funding for the Company to maintain the Group's working capital requirement while broadening the capital base of the Company, and was in the interests of the Company and the Shareholders as a whole.

Save as disclosed above, there were no shares issued by the Company during the year ended 31 March 2023.

## EVENTS AFTER THE REPORTING PERIOD

### 1. PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On 3 May 2023, the Company entered into the 2023 Placing Agreement with the 2023 Placing Agent, pursuant to which the Company conditionally agreed to place, through the 2023 Placing Agent on a best effort basis, up to 40,000,000 2023 Placing Shares at the 2023 Placing Price of HK$0.375 per 2023 Placing Share to not less than six independent placees. The 2023 Placing Price represented a discount of approximately 14.77% to the closing price of HK$0.44 per Share as quoted on the Stock Exchange on 3 May 2023, being the date of the 2023 Placing Agreement. The Board considered that the 2023 Placing would strengthen the Group's financial position, broaden the Company's shareholder base and would provide financial flexibility to the Company should any investment opportunity arise and for the expansion of the existing business, particularly under the prevailing high interest rate environment. Accordingly, the Directors were of the view that the 2023 Placing was in the interests of the Company and the Shareholders as a whole.

The completion of the 2023 Placing took place on 19 May 2023 and an aggregate of 40,000,000 2023 Placing Shares were issued and allotted by the Company to not less than six independent placees who were individual investors for cash at the 2023 Placing Price of HK$0.375 per 2023 Placing Share, representing approximately 13.32% of the issued share capital of the Company as enlarged by the allotment and issue of the 2023 Placing Shares immediately upon completion of the 2023 Placing. The aggregate nominal value of the 2023 Placing Shares issued and allotted pursuant to the 2023 Placing was HK$4 million. The net proceeds from the 2023 Placing, after deduction of expenses related to the 2023 Placing, amounted to approximately HK$14.7 million, representing a net price of approximately HK$0.3675 per 2023 Placing Share, which were intended to be used as the Group's general working capital and/or for future investments of the Group as and when the opportunities arise.

### 2. ENGAGEMENT IN VIRTUAL ASSET-RELATED ACTIVITIES

On 13 June 2023, Radio World (a direct wholly-owned subsidiary of the Company) entered into a subscription and shareholders agreement with JPEX, Fung Wong and Jade Power in relation to a joint venture in Jade Power for the operation of the VATP. Radio World, JPEX and Fung Wong would hold 51%, 25% and 24% (among which 10% would be held on trust by Fung Wong for the purpose of future grant to key personnel as long-term incentives for contributing to Jade Power and the Operator of Jade Power's issued shares, respectively. Radio World would pay its subscription amount to Jade Power fully in cash, whilst JPEX would provide technology services to Jade Power in satisfaction of all of its subscription amount and Fung Wong would provide consultancy and advisory services to Jade Power in satisfaction of all of its subscription amount.

The sole business of Jade Power initially would be to operate a VATP in Hong Kong. The VATP would be operated by the Operator, a direct wholly-owned subsidiary of Jade Power which had been operating in Hong Kong since May 2023. The Operator intended to apply to the Securities and Futures Commission of Hong Kong for the requisite licenses to operate the VATP in Hong Kong.

In view of the exponential growth in virtual asset-related activities in recent years, combined with the Hong Kong Government's policy initiative to develop Hong Kong into a leading global hub for web3 and virtual asset-related activities as well as recent changes to the regulatory landscape in Hong Kong which provide clearer regulated channels for Hong Kong investors to safely access virtual assets, the Group believes that the adoption of virtual assets in Hong Kong is at an inflection point and expects market demand for virtual asset-related products and services in Hong Kong to increase significantly over coming years from a diversified investor base. Therefore, the Board believed that expanding the Group's business operations to include virtual asset-related activities would enable the Group to capitalize on emerging market opportunities and create new sources of revenue from the transformation of traditional financial markets.

3. INVESTMENT IN MOX BY A SUBSCRIBER UNDER A SHARE SUBSCRIPTION AGREEMENT

   On 23 June 2023, MOX (an indirect 85%-owned subsidiary of the Company), as issuer, entered into the MOX Subscription Agreement with the Subscriber, as subscriber, and Zhang Pangfei, as guarantor, pursuant to which the Subscriber had agreed to subscribe for, and MOX had agreed to allot and issue to the Subscriber 25,000 new Subscription Shares, representing approximately 33.33% of the issued share capital of MOX as enlarged by the allotment and issue of the Subscription Shares, at the aggregate subscription price of RMB25,000,000. The net proceeds arising from the MOX Subscription would be used for general working capital and repayment of borrowings of a MOX's subsidiary.

   The MOX Group is principally engaged in the Group's building intelligence business. Immediately following the completion of the MOX Subscription, the effective interests in MOX by the Group will become approximately 56.67% and MOX will remain as an indirect non-wholly owned subsidiary of the Company. As recent financial performance of the Group's building intelligence business was unfavourable, the Board considered that the MOX Subscription would enhance the financial position of MOX and support the Group's building intelligence business by providing an additional source of funding to the MOX Group. It also represented a good opportunity to broaden MOX's shareholder base and capital base and could demonstrate a positive prospect of the Group's building intelligence business which might further attract potential investments in MOX and/or in the Group. As at the date of this report, the MOX Subscription has not yet completed and the completion is expected to take place on 24 July 2023 pursuant to the MOX Subscription Agreement.

Save as disclosed above, there were no other significant events that have occurred subsequent to the end of the reporting period and up to the date of this annual report.

## AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee. The Audit Committee comprises three independent non-executive Directors, namely Mr. Lam Ying Hung Andy (as committee chairman), Mr. Wang Chen and Ms. Li Mingqi. The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 March 2023 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 annual report, the Company has maintained sufficient public float as required under the Listing Rules during the year ended 31 March 2023 and up to the date of this annual report.

## AUDITOR

The consolidated financial statements of the Group for the year ended 31 March 2023 were audited by HLB Hodgson Impey Cheng Limited. HLB Hodgson Impey Cheng Limited shall retire and a resolution will be proposed for approval by Shareholders at the 2023 AGM to re-appoint HLB Hodgson Impey Cheng Limited as the auditor of the Company.

On Behalf of the Board

**Han Weining**
*Executive Director*

Hong Kong, 30 June 2023

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 year ended 31 March 2023 apart from code provisions C.2 and F.2.2 as disclosed below.

### CODE PROVISIONS UNDER C.2 OF THE CG CODE

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

Under the current structure and functions of the Board, the role of chairman should be responsible for the management and leadership of the Board while the role of chief executive officer should be responsible for the day-to-day management of the Group's business. However, the position of the chairman of the Board has been vacant since 3 January 2020, and hence the Company did not comply with code provisions under C.2 of the CG Code during the year ended 31 March 2023.

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

### CODE PROVISION F.2.2 OF THE CG CODE

Under code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting. As the position of chairman of the Board was vacant as at the date of the annual general meeting held on 30 August 2022 (the "2022 AGM"), Mr. Han Weining, being the executive Director and chief executive officer of the Company on the date of the 2022 AGM, was appointed as the chairman of the 2022 AGM to answer and address questions raised by the Shareholders at the 2022 AGM.

The Directors believed that Mr. Han Weining, as the chief executive officer of the Company and the executive Director on the date of the 2022 AGM, possessed sufficient knowledge on the Group's businesses and had the required leadership in maintaining an effective dialogue with Shareholders and addressing any issues or questions raised in the general meeting. Therefore, Mr. Han was considered suitable and appropriate to act as the chairman of the 2022 AGM in the absence of the chairman of the Board.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 year ended 31 March 2023.

## BOARD OF DIRECTORS

### (A) THE COMPOSITION OF THE BOARD

As at 31 March 2023, the Board comprised two executive Directors and three independent non-executive Directors; while at the date of publication of this report, the Board comprises three executive Directors, one non-executive Director and four independent non-executive Directors. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. The Board members during the year and up to the date of publication of this annual report, were:

*Executive Directors*
Mr. Han Weining *(Co-Chief Executive Officer)*
Mr. Chong Alex Tin Yam *(Co-Chief Executive Officer)* (appointed on 19 May 2023)
Ms. Wang Jie

*Non-executive Director*
Mr. Wong Hoi Lok (appointed on 24 July 2023)

*Independent Non-Executive Directors*
Mr. Lam Ying Hung Andy
Mr. Wang Chen
Ms. Li Mingqi
Mr. Cheng Nicholas Tat Hei (appointed on 19 May 2023)

Each Director possesses skills and experience appropriate to the business of the Group and the biographical details of the Directors, as at the date of publication of this annual report, are set out on pages 24 to 26 of this annual report.

Appropriate directors' liability insurance cover has been arranged to indemnify the Directors for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are to be reviewed regularly.

### (B) BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") and delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of Directors. The Board diversity would be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skill, knowledge and length of service, and the selection of candidates will also base on the above. The Nomination Committee will review and adopt the above measurements when it reviewed the composition of the Board and it will also review the Board Diversity Policy, on an annual basis, to ensure its continued effectiveness from time to time. After assessing the suitability of the Directors' skills and experiences to the Company's business, the Nomination Committee considered that the existing Board was appropriately structured.

As at the date of publication of this report, the Board consists of eight Directors, two of which are female. The Board considers that it is not necessary to set numerical targets and timeline for Board gender diversity for the time being. The Board will strive to improving gender diversity as and when suitable candidates are identified.

## (C) RESPONSIBILITY OF DIRECTORS

The Board is responsible for the overall leadership of the Company. The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors are responsible for formulating the purposes, values, business strategies and development plan of the Group, while the senior management personnel are delegated to supervise and execute the plans and overall management of the Group.

*Training and Continuous Development for Directors*

As at the date of this annual report, the Company has received the continuous professional development records from each of the Directors as a record of training (in the form of reading articles, researches, journals or professional updates, and attending briefings, trainings, seminars or conference) they received for the year ended 31 March 2023.

## (D) BOARD MEETINGS AND GENERAL MEETING

In compliance with the code provision C.5.1 of the CG Code, there are at least four regular board meetings should be held each year at approximately quarterly intervals. A notice of the meeting would be given to all Directors at least 14 days prior to the date of the meeting to enable all Directors to attend the meetings. The agenda of the meeting shall be determined after consulting each Director so that each Director is given the opportunity to include their proposals into the agenda.

For the year ended 31 March 2023, four Board meetings and two general meetings, being the 2022 AGM and the extraordinary general meeting of the Company held on 20 December 2022, were held and the attendance record of the Directors during their tenure is set out below:

| | Number of Board meetings attended/held | Attendance ratio | General meetings |
|---|---|---|---|
| *Executive Directors* | | | |
| Mr. Han Weining *(Co-Chief Executive Officer)* | 4/4 | 100% | 2/2 |
| Mr. Chong Alex Tin Yam *(Co-Chief Executive Officer)* (appointed on 19 May 2023) | N/A | N/A | N/A |
| Ms. Wang Jie | 3/4 | 75% | 2/2 |
| *Non-executive Director* | | | |
| Mr. Wong Hoi Lok (appointed on 24 July 2023) | N/A | N/A | N/A |
| *Independent Non-executive Directors* | | | |
| Mr. Lam Ying Hung Andy | 4/4 | 100% | 2/2 |
| Mr. Wang Chen | 4/4 | 100% | 2/2 |
| Ms. Li Mingqi | 4/4 | 100% | 1/2 |
| Mr. Cheng Nicholas Tat Hei (appointed on 19 May 2023) | N/A | N/A | N/A |

The company secretary of the Company (the "Company Secretary") assists the chairman of each meetings in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. The Company Secretary also keeps detailed minutes of each meetings, which are available to all Directors for inspection. A draft of Board minutes are circulated to all Directors for their comments and approved as soon as practicable after the Board meetings.

All Directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and service of the Company Secretary, who is responsible for providing Directors with board papers and related materials and ensuring that board procedures are followed.

## (E) INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The current independent non-executive Directors are Mr. Lam Ying Hung Andy, Mr. Wang Chen, Ms. Li Mingqi and Mr.Cheng Nicholas Tat Hei (appointed on 19 May 2023). The Board considers that all independent non-executive Directors possess appropriate and sufficient industry and finance experience and qualification to carry out their duties so as to protect the interest of the Shareholders. One of the independent non-executive Directors, Mr. Lam Ying Hung Andy, has over 20 years of experience in accounting and finance industry and he is a fellow of the Association of Chartered Certified Accountants (United Kingdom). During the year ended 31 March 2023, Mr. Han Weining, in his capacity as the chairman of the 2022 AGM had held meeting with the independent non-executive Directors without the presence of other Directors to discuss issues that they wish to raise regarding the Group.

The Board confirms that the Company has received from each of the independent non-executive Directors an annual confirmation in respect of their independence for the year under review and up to the date of publication of this annual report pursuant to Rule 3.13 of the Listing Rules. Based on the confirmation, the Board considers all independent non-executive Directors to be independent.

## (F) TERMS OF APPOINTMENT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ying Hung Andy has renewed his letter of appointment with the Company for a term of three years commencing on 22 March 2021, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

Mr. Wang Chen has renewed his letter of appointment with the Company for a term of three years commencing on 25 June 2021, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

Ms. Li Mingqi has renewed her letter of appointment with the Company for a term of three years commencing on 3 October 2022, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

Mr. Cheng Nicholas Tat Hei entered into a letter of appointment with the Company and he was appointed as an independent non-executive Director for an initial term of three years commencing from 19 May 2023, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than one month's notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

## (G) NOMINATION, APPOINTMENT, RE-ELECTION AND REMOVAL PROCEDURES

To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities which, in particular, are set out as follows:

(i) participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(ii) taking the lead where potential conflicts of interests arise;

(iii) serving on the Audit Committee, the Remuneration Committee and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board committees, if invited;

(iv) bringing a range of business and financial experience to the Board, giving the Board and any committee on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board/committee meetings;

(v) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(vi) ensuring the committees on which he or she serves to perform their powers and functions conferred on them by the Board; and

(vii) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

The Company has established relevant mechanisms to ensure independent views and input are available to the Board and review of such mechanisms on an annual basis. If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director with such qualifications or expertise as required under Rule 3.10(2) of the Listing Rules.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. Every Director is subject to the provisions of retirement from office by rotation at an annual general meeting at least once every three years. Any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall hold office only until the first annual general meeting of members held immediately after his or her appointment and be eligible for re-election at such meeting.

## DIVIDEND POLICY

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow Shareholders to participate in the Company's profit and for the Company to retain adequate reserves for the Group's future growth. In proposing any dividend payout, the Company would consider various factors including but not limited to the Group's overall results of operation, financial condition, working capital requirements, capital expenditure requirements, liquidity, future expansion plans, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group.

Any declaration and payment as well as the amount of the dividends will be subject to any restrictions under the applicable laws and the Company's constitutional documents. The Company does not have any pre-determined dividend distribution proportion or distribution ratio. Any future declarations of dividends may or may not reflect the Company's historical declarations of dividends and will be at the absolute discretion of the Directors.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year, the position of chairman of the Board was vacant and the chief executive officer of the Company was Mr. Han Weining throughout the year. The Company is in the process of identifying the suitable candidate with appropriate background, qualification and experience to fill in the vacancy as soon as possible. Currently, the roles and functions of the chairman are performed collectively by the Board members themselves. The roles of the chairman and chief executive officer were separate and not exercised by the same individual.

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. In line with the development of the Company and for the enhancement of corporate governance of the Company, the chairman of the Board should be responsible for the management of the Board by providing leadership for the Board and taking primary responsibility for ensuring that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with Shareholders and that their views were communicated to the Board as a whole, and the chief executive officer of the Company during the year ended 31 March 2023, being Mr. Han Weining, is responsible for the day-to-day management of business of the Group.

## COMPANY SECRETARY

During the year ended 31 March 2023, the Company Secretary was Mr. Ting Kin Wai, being the Group's employee who possessed day-to-day knowledge of the Group's affairs. According to the requirements of Rule 3.29 of the Listing Rules, Mr. Ting has taken no less than 15 hours of relevant professional training for the year ended 31 March 2023.

## BOARD COMMITTEES

In accordance with the requirements of the Listing Rules, the Company has established Board committees in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

## AUDIT COMMITTEE

The Audit Committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and monitor the Group's financial reporting process, risk management and internal control systems. The members of the Audit Committee are Mr. Lam Ying Hung Andy, Mr. Wang Chen and Ms. Li Mingqi, all being independent non-executive Directors. Mr. Lam Ying Hung Andy is the chairman of the Audit Committee.

The Company's annual results for the year ended 31 March 2023 have been reviewed and discussed by the Audit Committee.

For the year ended 31 March 2023, the Audit Committee has held 2 meetings. The work performed by the Audit Committee during the year included reviewed the Group's annual financial statements for the year ended 31 March 2022 and the interim financial statements for the six months ended 30 September 2022; and discussed with the auditors on the audit plan. The attendance record of each member of the Audit Committee is set out below:

| | Number of Audit Committee meetings attended/held | Attendance ratio |
|---|---|---|
| Mr. Lam Ying Hung Andy | 2/2 | 100% |
| Mr. Wang Chen | 2/2 | 100% |
| Ms. Li Mingqi | 2/2 | 100% |

## REMUNERATION COMMITTEE

The Remuneration Committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The members of the Remuneration Committee are Ms. Li Mingqi, Mr. Lam Ying Hung Andy and Mr. Wang Chen, all being independent non-executive Directors. Ms. Li Mingqi is the chairperson of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the Company's remuneration policy and structure for all Directors and senior management; to consider and advise on the recommendations regarding remuneration, bonuses and other compensation payable to all Directors and senior management; to review and approve the management's remuneration proposal; to make recommendations on performance evaluation procedure for determining remuneration of Directors and senior management. The Remuneration Committee shall ensure the Company has a formal and transparent procedure for developing remuneration policy of all Directors and senior management and none of the Directors is involved in determining his/her own remuneration. The Remuneration Committee has adopted the approach made under E.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual executive Director and senior management of the Company.

For the year ended 31 March 2023, the Remuneration Committee has held one meeting. The work performed by the Remuneration Committee during the year included reviewed the existing policy and structure of the remuneration for the Directors and senior management of the Company. The attendance record of each member of the Remuneration Committee is set out below:

| | Number of Remuneration Committee meetings attended/held | Attendance ratio |
|---|---|---|
| Ms. Li Mingqi | 1/1 | 100% |
| Mr. Lam Ying Hung Andy | 1/1 | 100% |
| Mr. Wang Chen | 1/1 | 100% |

The remuneration of the senior management (being Directors) of the Company for the year ended 31 March 2023, by band is set out below:

| Remuneration | Number of Individuals 2023 |
|---|---|
| HK$1 to HK$1,000,000 | 4 |
| HK$1,500,001 to HK$2,000,000 | 1 |
| | 5 |

## NOMINATION COMMITTEE

The Nomination Committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The members of the Nomination Committee are the independent non-executive Directors, Mr. Wang Chen, Mr. Lam Ying Hung Andy and Ms. Li Mingqi. Mr. Wang Chen is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to (1) review the structure, size and diversity (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (2) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (3) assess the independence of the independent non-executive Directors; (4) make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

For the year ended 31 March 2023, the Nomination Committee has held one meeting. The work performed by the Nomination Committee during the year included: reviewed the structure, size and composition of the Board; considered the independence of independent non-executive Directors; and made recommendations to the Board on the re-election of retiring Directors at the 2022 AGM. The attendance record of each member of the Nomination Committee is set out below:

| | Number of Nomination Committee meetings attended/held | Attendance ratio |
|---|---|---|
| Mr. Wang Chen | 1/1 | 100% |
| Mr. Lam Ying Hung Andy | 1/1 | 100% |
| Ms. Li Mingqi | 1/1 | 100% |

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Company and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## WORKFORCE DIVERSITY

As at 31 March 2023, 68.7% of the Group's employees (including Directors and senior management) were male and 31.3% were female. The Company considers that gender diversity in respect of the Group's workforce is achieved.

## INVESTOR COMMUNICATIONS AND SHAREHOLDERS' RIGHTS

The Company recognizes the importance of maintaining a timely communication and transparent reporting to the Shareholders and/or investors.

The Company maintains an on-going dialogue with the Shareholders and/or investors by various communication channels, including but not limited to, general meetings, annual and interim reports, announcements and circulars. The Company publishes all corporate communications on the Company's website at www.synertone.net, and on the website of the Stock Exchange at www.hkexnews.hk.

In compliance with the Listing Rules and the Articles of Association, notice will be given to the Shareholders for annual general meeting of not less than twenty-one clear days and notice will be given for all other general meetings of not less than fourteen clear days.

All general meetings of the Company have been conducted by way of poll and detailed procedures for conducting a poll were explained at the commencement of the meeting. The poll voting results will be published by way of an announcement immediately following the relevant general meeting.

The procedures for Shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting are set out in Article 58 of the Articles of Association, which can be accessed on the Company's website at www.synertone.net or on the website of the Stock Exchange. Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong. Based on the above channels for Shareholders to communicate their views on various matters affecting the Company, the Company is of the view that the shareholders' communication policy was effective during the year ended 31 March 2023.

During the year ended 31 March 2023, the Board proposed to make certain amendments (the "Proposed Amendments") on 28 June 2022 to the existing memorandum and articles of association of the Company ("Articles of Association") to be in line with the latest amendments to the Listing Rules, including the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022 and the applicable laws of the Cayman Islands. In view of the number of the Proposed Amendments, the Board also proposed to adopt the new memorandum and Articles of Association in substitution for, and to the exclusion of, the existing memorandum and Articles of Association in their entirety. The Proposed Amendments and the proposed adoption of the new memorandum and Articles of Association became effective on 30 August 2022 upon the approval by the Shareholders by passing of a special resolution at the 2022 AGM. For details of the amendments, please refer to the announcement of the Company dated 28 June 2022 and the circular of the Company dated 29 July 2022. Save as above, there have been no other significant changes in the memorandum and Articles of Association during the year.

## ACCOUNTABILITY AND AUDIT

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 March 2023 under the section headed "Management Discussion and Analysis" of this annual report.

### AUDITOR'S REMUNERATION

For the year ended 31 March 2023, the total fee in respect of audit services provided by HLB Hodgson Impey Cheng Limited, the auditor of the Company, was approximately HK$700,000.

### DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group for the year ended 31 March 2023 and confirm that the financial statements give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The statement of the auditor as to its responsibility for the financial statements is set out in the Independent Auditors' Report set out on pages 82 to 86 of this annual report. The Directors have prepared the financial statements on a going concern basis.

## INTERNAL CONTROLS AND RISK MANAGEMENT

*The Board's responsibilities for the risk management and internal control systems*

The Board acknowledges that it is responsible for the risk management and internal control systems and oversees such systems on an ongoing basis, while ensuring a review of the effectiveness of these systems of the Group is conducted at least annually. The scope of such review covers all material controls, including financial, operational and compliance controls. The Group's risk management and internal control systems are designed to manage risks rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee. The management has provided a confirmation to the Audit Committee on the effectiveness of these systems for the year ended 31 March 2023 and the Audit Committee has recommended the Board for approval of the confirmation of the management.

*Main features of the risk management systems*

The Company recognises that good risk management is essential for the long-term and sustainable growth of a business. The Group has established a governance structure and the major responsibilities of each role of the structure are summarized below:

| Role | Major Responsibilities |
| --- | --- |
| Board | – determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives; |
| | – oversees management in the design, implement and monitoring of the risk management and internal control systems; |
| | – oversees the Group's risk management and internal control systems on an ongoing basis and ensures the Company establishes and maintains appropriate and effective risk management and internal control systems; |
| Audit Committee | – reviews the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance controls; |
| | – reviews the emerging risks of the Group annually, and the risk management and the internal controls in place to address those risks; |
| | – discusses the risk management and internal control systems with management of the Group to ensure that the management of the Group has performed its duty to have an effective systems; |
| | – considers major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the Group's management's response to these findings; |
| | – implements any remedial plans recommended by the management should there be any internal control deficiencies; |

| Role | Major Responsibilities |
|---|---|
| Management | – designs, implements and ongoing assesses the Group's risk management and internal control systems; |
| | – gives prompt responses to, and follow up the findings on risk management and internal control matters as delegated by the Board, on Audit Committee's initiative or raised by the external risk management and internal control review advisor(s); |
| | – provides confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems; |
| Risk Owners | – ultimately accountable for ensuring the risk is managed appropriately; |
| | – prepare their respective operating plans pursuant to corporate objectives for consideration; and |
| | – responsible for, or oversight of, activities to manage each identified risk. |

In addition, the Company has engaged external consultant to conduct a review of the effectiveness of the risk management and internal control systems for the year ended 31 March 2023.

*Main features of the internal control systems*

The Company has in place an internal control system which is compatible with the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

| | |
|---|---|
| Control Environment | – a set of standards, processes and structures that provide the basis for carrying out internal control across the Group. |
| Risk Assessment | – a dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed. |
| Control Activities | – actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. |
| Information and Communication | – internal and external communication to provide the Group with the information needed to carry out day-to-day controls. |
| Monitoring | – ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning. |

*Process used to identify, evaluate and manage significant risks*

(1) Understand the business objective and update the risk assessment criteria and relevant risk items.

(2) Review the existing risk management mechanism, identify areas for enhancement and refine the mechanism if necessary.

(3) Identify relevant risks and update the identified risks in the risk register in response to the changes in the Company's business and the external environment.

(4) Rating for the impacts and inherent likelihood of each identified risks, priorities the identified risk items and identify the responsible risk owners.

(5) Analyse the counter measures which have been put in the risk response (ranking) table based on risk priorities.

All high risk items should be reduced or eliminated by mitigation actions while all medium risk items should be considered for mitigation which subject to a cost benefit analysis.

(6) Estimate the initial and ongoing costs for mitigation by comparing with the estimate cost of non-mitigation and consider all risk mitigation options. Once the decision to mitigate the risk has been made and the strategy is identified of each risk item, a mitigation plan should be developed.

(7) Prepare for the risk assessment results, which covers significant control failings or weaknesses that have been identified, which have a material impact on the Company's financial performance or condition, and present the same to the Audit Committee.

(8) Develop the ongoing risk mitigation plan for the top prioritised (significant) risk items based on the risk assessment results.

In achieving sound and effective risk management and internal control systems, employees are obliged to respect all applicable legislation, rules and regulations, and to follow certain policies and procedures.

For the year ended 31 March 2023, the Board considered the risk management and internal control systems of the Company are effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of such review covers the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting functions and their attitude against internal control of the Group. The Board will continue to work with the management to discuss and follow-up on the status of remediation of the internal control weaknesses and to monitor the risks of the Group in the coming years.

*Whistleblowing policy*

The Group relies on each of its employees, at all levels, to monitor the quality of the Group's daily operation and compliance with relevant laws and regulations. The Group considers recommendations from employees for improving the Group's practices and controls and communicates policy changes and other matters of the Group in a timely basis.

In addition, the Company has adopted a whistleblowing policy, under which employees and those who deal with the Company are provided with ways to raise their concerns about possible improprieties in any matter relating to the Company without fear of reprisal or victimization, and in a responsible and effective manner. Written complaints can be lodged directly to the chairman of the Audit Committee and copied to the Company Secretary. The chairman of the Audit Committee shall convene a meeting to decide whether and/or how to carry out any necessary investigation and, depending upon the circumstances, consider to nominate investigating officer or to set up a special committee to investigate the matter independently.

*Anti-corruption policy*

For details of the anti-corruption policy of the Company, please refer to the section headed "Anti-corruption" as set out in the Environmental, Social and Governance Report to this report.

*Procedures and internal controls for the handling and dissemination of inside information*

The Group complies with the requirements of the SFO and the Listing Rules for the handling and dissemination of inside information. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in the announcements or circulars of the Company are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

The Group has adopted and implemented written policy and procedures on handling and dissemination of inside information. Certain measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of disclosure requirements, which include the following:

- The Group has established the inside information team (the "Inside Information Team") to identify, assess and escalate potentially inside information to the attention of the Board.

- A reporting channel has been set up for employees to use upon they become aware of actual or potentially inside information ("Information"). They must report to their respective divisional disclosure officers, or the Inside Information Team of the Information at the possible earliest time. Divisional disclosure officers shall then conduct preliminary assessment of the Information received. Upon notification of Information, the Inside Information Team reviews and decides whether the Information must be disclosed, as well as when and how the Information shall be released and gives recommendation to the Board. The Board reviews the recommendation from the Inside Information Team and decides whether the Information should be disclosed; and/or any other appropriate actions.

- The Group has designated officers with appropriate skills and training to speak on behalf of the Group when communicating with media, analysts or investors.

- The Group has strict prohibition on unauthorized use or disclosure of confidential information. Such prohibition is included in the employment agreements for all employees.

- Officers/relevant employees are given access to a sensitivity list identifying factors or developments which are likely to give rise to the emergence of inside information. Trainings are provided to them on a regular basis to ensure that they are familiar with the procedures as well as their relevant disclosure duties and obligations.

*Internal audit function*

The Company currently does not assign any specialized staff to monitor the internal control system of the Company. The Board has reviewed, on an annual basis, the need for an internal audit function and is of the view that in light of the size, nature and complexity of the business of the Group, as opposed to diverting resources to establish a separate internal audit department, it would be more cost effective to appoint external independent professionals to perform independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

On behalf of the Board
**Han Weining**
*Executive Director and Co-Chief Executive Officer*

30 June 2023

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## INTRODUCTION

Synertone Communication Corporation (the "Company", together with its subsidiaries, the "Group") is a one of the leading provider of building and home intelligence products and integrated automation control systems and solutions. The principal businesses of the Group currently include provision of (i) design, development and sale of automation control systems and solutions, (ii) design, research and development, manufacture and sales of intelligent system including video intercom and surveillance system for buildings, and (iii) the rental, maintenance services in relation to computer equipment and machines, information technology infrastructure and advanced technologies such as robots and other related services. As the world's leading provider of automation control systems, the Group possesses leading standard of technical know-how and commercial competitiveness, and thus the products of the Group are extensively applied in high-rise buildings, high-end residential complexes and smart communities as well as diversified industries including electrical power, petrochemical, public utilities, mining, natural gas and food and beverage industries by providing fully digital intelligent control systems for human's modern life.

This Environmental, Social and Governance Report (the "Report") summarizes the environmental, social and governance ("ESG") initiatives, plans and performance of the Group, which demonstrates its commitment to sustainable development.

## REPORTING PERIOD

This Report details the Group's ESG activities, challenges and initiatives from 1 April 2022 to 31 March 2023 (the"FY2023").

## REPORTING SCOPE

The statistics on the number of employees and the number of resigned employees in this Report cover all the operating locations of the Group. Except for the above data, the scope of this Report covers operating companies that have a significant impact on the environmental performance of the Group, namely 萬科思自控設備(中國)股份有限公司 ("MOX", literally translated as MOX Control System (China) Limited). Unless stated otherwise, the scope of this Report is substantially consistent with previous year.

The reporting scope of this Report is determined based on the principle of materiality, covering ESG-related issues that are material to the Group and ESG-related issues concerned by stakeholders of the Group. To further understand expectations of the Group's stakeholders, the Group actively communicates with its stakeholders, including shareholders, the government, employees, clients, suppliers, the community and the public. Issues related to ESG which pose significant influence on the stakeholders were evaluated and identified through the combination of group discussions and phone interview. The Group will continue to assess the key ESG aspects of the different operations and will expand the scope of disclosure where appropriate.

## REPORTING STANDARD

This Report was prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

This Report was prepared based on the information obtained from or implied in official documents or statistic report of the Group. During the process of preparing this Report, the Group has applied the principles of materiality, quantitative and consistency to summarise its philosophy on ESG aspects and the overall performance of its business operations in the People's Republic of China (the "PRC") during FY2023, and has adopted the reporting principles set out in the ESG Reporting Guide by the following ways:

Materiality: The Group identifies and analyzes material ESG issues through materiality assessment and uses the identified material ESG issues as the focus for the preparation of this Report. The board of directors (the "Board") and the ESG Working Group (the "Working Group") have reviewed and confirmed the materiality of the issues. Please refer to the two sections headed "Engagement with Stakeholders" and "Materiality Assessment" for details.

Quantitative: The standards and methods used to calculate the underlying data and the applicable assumptions are disclosed in this Report. Key performance indicators ("KPIs") are supplemented by explanatory notes to establish benchmarks where practicable.

Consistency: The Report has been prepared in a manner generally consistent with that of the previous year. If there are any changes in the scope of disclosure or calculation methods that may affect the comparison with previous reports, the Group will explain the relevant data and contents.

During FY2023, the Group has confirmed that it has established appropriate and effective management policies and internal control systems on ESG matters and that the disclosures are in compliance with the ESG Reporting Guide. This Report has undergone the Group's internal review process and has been approved by the Board.

For the philosophy and performance of corporate governance of the Group, please refer to the "Corporate Governance Report" in this annual report.

## BOARD STATEMENT

The Group strongly believes that environmental protection, low carbon and sustainable development are the major trends in society. The Group is committed to integrating ESG concepts into its risk management system and taking corresponding measures in its daily operations and governance.

### ESG GOVERNANCE STRUCTURE

The Group has developed a core governance framework to ensure that ESG governance is aligned with strategic growth and to promote the integration of ESG elements into business operations. The ESG governance structure is divided into two parts, namely the Board and the Working Group.

The Board has the overall responsibility for the Group's ESG-related strategy, governance approach and reporting, and oversees and manages ESG-related issues. The Board selects qualified members with the appropriate skills, experience, knowledge and perspectives required for the relevant ESG matters. Relevant skills and experience include operations management, quality control, equipment and production site management, risk management. The Board is responsible for setting the Group's ESG-related objectives, priorities and policies. In addition, the Board also ensures the effectiveness of risk management and internal control systems on ESG. The Board, with the assistance of the Working Group, convenes a meeting at least once a year for discussing and reviewing ESG-related issues of the Group including, but not limited to, risks and opportunities, performance, targets and indicators.

The Working Group consists of representatives from different functional departments of the Group. The Working Group assists the Board in fulfilling supervisory responsibilities and its duties include, but are not limited to, assisting the Board in collecting and analyzing ESG-related information of the Group, preparing ESG reports, identifying and assessing the Group's ESG risks, evaluating the effectiveness of internal control mechanisms, organizing and conducting assessments of material issues, and developing and implementing the ESG-related strategies, frameworks and policies of the Group. The Working Group needs to schedule a meeting at least once a year, examines and evaluates the Group's performance in different aspects of the ESG areas such as environment, health and safety, labour standards and product responsibility. The Working Group also needs to report relevant information to the Board at least once a year.

## ESG TARGETS

In order to actively implement its global sustainability commitments, promote carbon neutrality and respond to stakeholders' expectations and ESG concerns for the Group, the Group has set environment-related targets. In FY2023, the Group has been proactive in taking various measures at the operational level to achieve the targets. The Board has delegated authority to the members of the Working Group to collect relevant data, monitor and analyze the performance of the Group. Through the regular reports of the Working Group, the Board expects steady progress to be made in achieving the set targets. Going forward, the Board and the Working Group will continue to review annually the progress of ESG-related targets and ensure that the Group has sufficient measures and resources to achieve the set targets. The performance is summarised in the section headed "Environment".

## ENGAGEMENT WITH STAKEHOLDERS

The Group proactively listened to the views of stakeholders to ensure continuous improvement. The Group strived to communicate with internal and external stakeholders through various communication channels, so as to understand and respond to their expectations and concerns, and to strike a balance between their respective interests, which in turn enabled the Group to determine its business development direction in the long run.

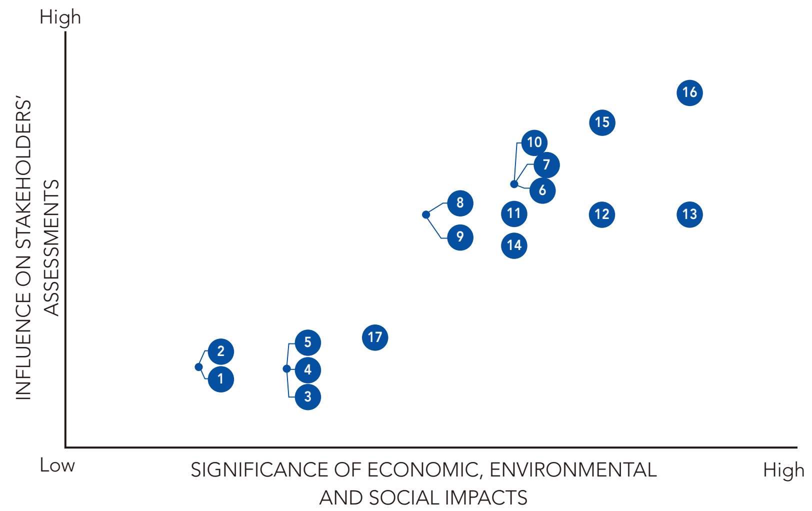
| Stakeholders | Communication channels | Expectations and concerns |
|---|---|---|
| Shareholders | • Annual general meeting and other shareholder meeting<br>• Financial reports and corporate announcements | • Financial results<br>• Corporate transparency<br>• Sound risk control |
| The government | • Inspection and monitoring by governmental organizations | • Being law-abiding<br>• Paying tax in accordance with the law |
| Employees | • Regular performance reviews<br>• Internal announcements and newsletters | • Career development platform<br>• Remuneration and benefit<br>• Safe working environment |
| Clients | • Inquiry by telephone | • Customer information security<br>• Customer interest protection |
| Suppliers | • Conference calls | • Collaboration integrity<br>• Business ethics and creditworthiness |
| The community and the public | • ESG reports | • Environmental friendliness<br>• Employment opportunities |

## MATERIALITY ASSESSMENT

During FY2023, the Group has carried out a materiality assessment of the ESG-related issues. With reference to its actual business and industrial characteristics, the Group identified and recognised 17 issues in relation to the ESG and invited internal and external stakeholders to give rating on the materiality of such 17 issues. After consolidating the rating results of stakeholders and the Group's sustainable development target, our management concluded the materiality priority of these issues and prepared a materiality matrix chart.

The result of materiality assessment will be used by the Group as a guidance when developing future ESG working projects and targets, with a view to creating sustainable value for stakeholders.

The Group's ESG materiality matrix chart for the FY2023 is as follows:




### Material ESG issues relating to the Group

1. Greenhouse gas ("GHG") emissions
2. Waste management
3. Energy consumption
4. Water resource consumption
5. Climate change
6. Talent attraction and retention
7. Employee benefits
8. Inclusion and equal opportunities
9. Occupational health and safety
10. Employee development and training
11. Supply chain management
12. Product quality control
13. Customer satisfaction
14. Customer privacy protection
15. Anti-corruption
16. Corporate governance
17. Community investments

## CONTACT US

The Group welcomes and values feedback from stakeholders on its ESG approach and performance to help the Group continuously improve its sustainable development performance. If you have any suggestions or opinions, questions or comments, please contact the Group through the following channels:

Address: Room 1012, 10/F, Tsim Sha Tsui Centre, 66 Mody Road, Kowloon, Hong Kong
Telephone: +852 2865 4498

## A. ENVIRONMENT

The Group is committed to ensuring continuous growth of its business and at the same time maintaining sustainable development of the environment. The Group conducts internal trainings and internal review with reference to relevant requirements of ISO14000 Environmental Management System. The Group has launched relevant policies and measures for environmental protection, with an aim to optimising emission management and enhancing efficient use of resources.

### EMISSION MANAGEMENT

The Group strictly complies with relevant national and local laws and regulations on environmental protection, including "Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)", "Regulations on Construction Projects Environmental Protection (建設項目環境保護管理條例)" and "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法)" during business operation. During FY2023, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that had significant impact on the Group. In addition, there was no report of significant fines or non-monetary sanctions as the result of non-compliance with relevant laws and regulations in FY2023.

*Air emissions*

The business activities of the main business segment do not directly generate significant air emissions. The major air emissions of the Group are the soldering tin exhaust gases during the production process. After the Group centralizes and collects such gases, high-efficiency particulate air filter (HEPA) is used in the filtering process. The gas is then led to direct emission through windows after the processing performance reaches 99.9% and exhaust gases emitted comply with relevant local standards. In addition, while the Group has no record of using company vehicle for travel in FY2023, the Group has put in place relevant measures, arranged usage of vehicles reasonably and promoted green travelling to reduce the air emissions.

*GHG emissions*

The main sources of GHG emissions of the Group are the energy indirect emissions from the purchase of electricity (Scope 2). The Group has also set a target to reduce the GHG emission intensity (tonnes $CO_2$ equivalent/total annual production) of MOX by the financial year ending 31 March 2025 ("FY2025"), with the financial year ended 31 March 2022 (the "FY2022") as the base year. In order to achieve this target, the Group is actively implementing electricity saving and energy saving measures to reduce GHG emissions, including strict control on the use of air conditioner, lighting facilities and office appliances, etc. Specific measures will be specified in the section headed "Energy Consumption".

Within the reporting scope of this Report, the GHG emission intensity of the Group for FY2023 increased significantly when compared with FY2022. Such increase in the GHG emission intensity was due to the increase in the number of air conditioners used compared to the previous year result of the increase in the accommodated number of employee in our Group's dormitories, and the decrease in production volume.

The GHG emissions and intensity of the Group during its operation are set out below:

**GHG Emissions and Intensity[1,2]**

| | Unit | FY2023 | FY2022 |
|---|---|---|---|
| Direct GHG emissions (Scope 1)[3] | Tonnes $CO_2$ equivalent | – | 26.40 |
| Energy indirect GHG emissions (Scope 2) | Tonnes $CO_2$ equivalent | **345.97** | 245.62 |
| Total GHG emissions | Tonnes $CO_2$ equivalent | **345.97** | 272.02 |
| GHG emissions intensity[4] | Tonnes $CO_2$ equivalent/ total annual production | **0.02** | 0.01 |

*Notes:*

1. GHG emissions data are presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Bank Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report–Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, the "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5) and the "2019 China regional power grid baseline emission factor of emission reduction projects" published by the Ministry of Ecology and Environment of the People's Republic of China.

2. In FY2023 and FY2022, the Group has recycled all the papers, thus no relevant emission of waste paper disposal is disclosed.

3. The Group's direct emissions in FY2022 were mainly from additional refrigerant purchases. As the Group has carried out maintenance for its air conditioning equipment in FY2022, no refrigerant has been purchased in FY2023.

4. During FY2023, the total annual production of MOX is approximately 16,752 units (FY2022: 25,906 units). This data will also be used to calculate other intensity data in the Report.

*Waste management*

The major wastes produced by the Group include unqualified printed circuit boards, electronic components, tin scrap and waste packages and general wastes. Unqualified printed circuit boards and electronic components in production process are returned to suppliers for processing; tin scrap and waste packages are collected and delivered to qualified waste recycling units for processing. The Group also upholds the principles of 3R ("Reduce", "Reuse", "Recycle") and adopts active measures for recycling and integrated usage to avoid secondary pollution. The Group also sets a target to reduce non-hazardous waste intensity (kg/total annual production) of MOX in or by FY2025, with FY2022 as the base year. For this purpose, the Group promotes "Paperless" office. For example, the Group encourages staff to read documents through electronic equipment, print relevant documents after checking, select double- sided printing whenever possible, and use both sides of paper as far as practicable so as to reduce waste of paper. The Group's total wastes have been effectively reduced through waste recycling programme and "Paperless" office policy. In addition, the Group is devoted to promoting clean techniques and formula and using less polluting raw materials in product design. New techniques, new technology and new equipment are adopted to maximise utilisation of raw materials and resources with an aim to avoid formation of scraps in production process, so as to effectively further reduce the total wastes.

Within the reporting scope of this Report, the non-hazardous waste intensity of the Group for FY2023 has reduced approximately 20.00% as compared with FY2022. The decrease in the non-hazardous waste intensity is due to the Group's effective waste reduction measures and increased awareness of waste reduction among employees.

During its operation, the total waste disposed by the Group and its intensity were set forth as follows:

**Total Waste and Intensity[5]**

| | Unit | FY2023 | FY2022 |
|---|---|---|---|
| Total amount of non-hazardous waste[6] | Tonnes | **14.50** | 18.23 |
| Non-hazardous waste intensity | Kg/total annual production | **0.56** | 0.70 |

*Notes:*

5. The hazardous waste produced by the Group's business are delivered to qualified waste recycling units for processing. And as the Group generated only an insignificant amount of hazardous waste, which did not have any substantial impact to the environment, thus no data is disclosed.

6. The data does not include the recycled wastes. The Group has recycled paper of approximately 218.30 kilogram during the FY2023 (FY2022: 280.67 kilogram). Besides, the Group has also recycled scrap packaging materials of approximately 480.00 kilogram during the FY2023 (FY2022: 690.00 kilogram).

*Sewage discharge*

The Group's production process does not involve industrial wastewater discharge and the domestic sewage discharged in its daily operation complies with the relevant local standards. All domestic wastewater of the Group is discharged into the sewage pipes, and the sewage discharge pipes and sewage treatment devices are regularly inspected and repaired. At the same time, recycled water is used for cooling, greening and cleaning to reduce the discharge of wastewater. As a result, the total water consumption of the Group was effectively reduced.

As all the sewage generated by the Group is discharged to the public sewage collection system, water consumption is considered as amount of sewage discharged. Water consumption and the corresponding water conservation measures are described under "Water Consumption".

## USE OF RESOURCES

The Group encourages staff to implement the concept of environmental protection, participate in environmental protection work and enhance the efficient use of resources.

*Energy consumption*

The Group keeps raising staff's consciousness of environmental protection through different communication channels. During FY2023, the Group also sets a target to reduce energy consumption intensity (kWh/total annual production) of MOX in or by FY2025, with FY2022 as the base year. To reduce energy consumption, the Group has launched resource-saving measures in its production activities and daily office operation, including:

- Using zone switch for lighting and air-conditioning systems;
- Maintaining the temperature of air-conditioners at 25 degree Celsius in summer;
- Switching off air-conditioning systems and lighting equipment in workplace when they are idle;
- Reducing idle time for devices; and
- Optimising purchase process and improving purchase system to reduce inventory storage.

Within the reporting scope of this Report, the energy consumption intensity of the Group for FY2023 increased by approximately 40.85% compared with FY2022. Such increase in the energy consumption intensity was due to the increase in the number of air conditioners used compared to the previous year result of the increase in the accommodated number of employee in our Group's dormitories, and the decrease in production volume.

During its operation, the total energy consumption of the Group and its intensity were set forth as follows:

**Total Energy Consumption and Intensity**

| | Unit | FY2023 | FY2022 |
|---|---|---|---|
| Total indirect energy consumption – electricity purchased | KWh | **436,773.81** | 310,085.00 |
| Total energy consumption | KWh | **436,773.81** | 310,085.00 |
| Energy consumption intensity | KWh/total annual production | **16.86** | 11.97 |

*Water resource consumption*

The Group actively promotes the importance of water conservation to its employees. The Group also sets a target to reduce water consumption intensity (m3/total annual production) of MOX in or by FY2025, with FY2022 as the base year. In order to reduce water consumption, the Group has adopted water-saving measures and established internal guidance. Plans for water-saving targets are developed annually. Water-saving measures are implemented to enhance daily maintenance and management of equipment consuming water, with the aims of avoiding "running", "spraying", "dripping" and "leakage" of water and the occurrence of "prolonged water flow" and ensuring employees comply with principles of conservation and efficient use of water when using water resources. Once any malfunction is found in water-consuming equipment, professionals will be notified immediately for repairing. The Group promotes the use of circulating water to minimise the use of tap water. The Group also examines the situation of water usage regularly for the investigation of the reasons for overconsumption and the statistics and status of water consumption and conservation will be complied and announced.

Within the reporting scope of this Report, the water consumption intensity of the Group for FY2023 decreased by approximately 40.00% compared with FY2022. Such decrease in the water consumption intensity was due to the Group's effective water saving measures and increased awareness of water efficiency among employees.

During its operation, the total water consumption of the Group and its intensity were set forth as follows:

**Total Water Consumption and Intensity**

| | Unit | FY2023 | FY2022 |
|---|---|---|---|
| Total water consumption | $m^3$ | **3,955.83** | 6,505.00 |
| Water consumption intensity | $m^3$/total annual production | **0.15** | 0.25 |

*Packaging materials consumption*

Large amount of packaging materials are used in the Group's products, mainly including paper boxes and filling materials in packages. To reduce waste generation, the Group strives to reuse all paper boxes and filling materials in packages.

During its operation, the total packaging materials consumed by the Group and intensity were set forth as follows:

**Total Packaging Materials Consumption and Intensity**

| | Unit | FY2023 | FY2022 |
|---|---|---|---|
| Total packaging materials consumption | Tonne | **3.80** | 5.60 |
| Packaging materials consumption intensity | Kg/total annual production | **0.15** | 0.22 |

## ENVIRONMENT AND NATURAL RESOURCES

The Group is committed to providing a comfortable, hygienic and clean workplace for its employees, ensuring that issues relating to the workplace are addressed in a timely manner, and taking appropriate measures to reduce potential risks and enhance work efficiency. In addition, the Group pays close attention to indoor air quality to ensure that employees can work in a good environment with peace of mind.

The Group has stringent control on production procedure to ensure compliance with local environmental laws and regulations. No material non-compliance with "Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)" and other applicable laws and regulations was recorded during FY2023. The Group will strive to reduce the impacts on the environment and natural resources from aspects including operation and management by continually perfecting environmental protection, energy conservation and emission reduction management system with emphasis on controlling the emission of pollutants during production process.

## CLIMATE CHANGE

The Group is committed to addressing potential climate-related risks that may affect the Group's business activities. In order to identify and mitigate different climate-related risks, the Group has incorporated climate change into its internal controls and enterprise risk management procedures and has formulated climate-related policies. In addition, the Board meets regularly and works closely with the Working Group to assess ESG-related risks, including climate-related risks, and to develop and to implement measures to address the identified risks.

Through the above method, the Group has identified the following risks that may have a material impact on the Group's business:

*Physical risk*

The increase in occurrence frequency and severity of extreme weather events (such as storms, heavy rain or typhoons) may disrupt the power grid and communications infrastructure, damage plant and equipment, disturb the supply chain and endanger the safety of employees, resulting in disruption to the Group's operations. As part of the Group's operations are located in areas that have a high risk of being affected by typhoon, the Group has put in place preventive and contingency measures to enhance the Group's ability to prevent and mitigate impact on the Group's business caused by extreme weather events such as typhoons as a countermeasure. At the same time, the Group will explore ways to mitigate or avoid these severe impacts on its business operations through changing its business model. During FY2023, since the Group has taken comprehensive precautionary measures, no significant impact was caused by climate-related events.

*Transition risk*

Recently, the number of climate-related laws and regulations is growing across the globe to support the global decarbonization vision. For example, the Stock Exchange has required listed companies to strengthen climate-related disclosures in their ESG reports. At the same time, China has also launched its latest document to guide the country to achieve two major goals of carbon peaking and carbon neutrality by 2030 and 2060, respectively. Increasingly stringent climate-related laws and regulations may expose companies to higher compliance costs and increased risk of claims and litigation. Corporate reputation may also decline as a result of failure to meet climate change related compliance requirements. To address policy and legal risks as well as reputation risks, the Group regularly monitors current and emerging trends, policies and regulations related to climate and is prepared to alert senior management when necessary to avoid increased costs, fines for non-compliance or regulatory compliance risks and reputation risks due to delayed response.

## B. SOCIAL

### EMPLOYMENT AND LABOUR PRACTICES

*Employment*

Employees are the most valuable properties for achieving the target of the Group. The Group upholds the performance-based employment concept that "capable person replaces incapable one". Employment and dismissal policy will not be affected by race, gender, age, religious belief, disabilities or family status of applicants or employees. The Group is committed to providing a fair and safe working environment for employees. The Group is always attentive and supportive to employees. The Group continuously provides diversified skill trainings and career development opportunities for employees so as to achieve harmony and mutual win between employees and the Group.

The Group strictly complies with national and local laws and regulations related to employment during its business operations, such as "Labour Law of the People's Republic of China (中華人民共和國勞動法)", "Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法)" and "Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法)", the Employment Ordinance and Mandatory Provident Fund Schemes Ordinance in Hong Kong as well as "Fair Work Act 2009" and "Fair Work Regulations 2009" in Australia, to ensure the provision of fair employment and promotion opportunities to employees. During FY2023, the Group was not aware of any material breach of laws and regulations relating to remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other benefits and entitlements that would have a material impact on the Group. In addition, there were no significant fines or sanctions imposed on the Group for non-compliance with the relevant laws and regulations during FY2023.

The Group has a high quality team comprising talents with master degree, bachelor degree and college graduates. As of 31 March 2023, the Group had 115 (as of 31 March 2022: 123) employees. Employees breakdown by gender, employment type, age group and region was summarised as follows:

| | As of 31 March 2023 | | As of 31 March 2022 | |
|---|---|---|---|---|
| | Number of employees | Percentage of total employees | Number of employees | Percentage of total employees |
| **By gender** | | | | |
| Male | **79** | **68.70%** | 82 | 66.67% |
| Female | **36** | **31.30%** | 41 | 33.33% |
| **By employment type** | | | | |
| Full-time | **112** | **97.39%** | 117 | 95.12% |
| Part-time | **3** | **2.61%** | 6 | 4.88% |
| **By age group** | | | | |
| 30 or below | **11** | **9.57%** | 14 | 11.38% |
| 31 to 50 | **83** | **72.17%** | 88 | 71.54% |
| 51 or above | **21** | **18.26%** | 21 | 17.08% |
| **By region** | | | | |
| PRC | **107** | **93.04%** | 115 | 93.50% |
| Hong Kong | **7** | **6.09%** | 7 | 5.69% |
| Australia | **1** | **0.87%** | 1 | 0.81% |

The Group treasures and respects talents, and adheres to the principles of openness, fairness and justice in recruiting, and establishes a complete recruitment management system that specifies recruitment applications and procedures to improve recruitment efficiency and quality to meet the Group's manpower needs and ensure the quality of talents. The Group has clear mechanism for the management of promotion, transfer and demotion of personnel to protect the interests of both employees and the Group.

The Group endeavours to offer comprehensive and competitive remuneration package and benefits to attract, retain and motivate outstanding employees. The Group benchmarks employees' compensation according to its internal situation and the external labour market of related fields, sectors and professions, to ensure their compensation are reasonable and consistent with market level. Remuneration adjustments are based on the factors including the Group's operating results, the level of the staff's position, personal competency and performance and social development level. Discretionary performance bonus is offered to staff according to annual appraisal as recognition of their contribution and as motivation for achieving self-improvement. The Remuneration Committee is responsible for reviewing the management's proposals of the Group's remuneration adjustment and discretionary performance bonus, and providing share options as incentives to senior management with outstanding performance.

The Group emphasises the wellbeing of its employees, caring for employees from various aspects. In addition to ordinary annual leaves and paid sick leaves, the Group also provides other leave arrangement such as marriage leave, maternity leave, paternity leave and compassionate leave to employees for their relaxation and refreshment. The trade union of MOX was established in 2013, which was organized by employees. The trade union was founded to care for employees' work and life, organize employees to participate in team building activities, sports activities, public welfare activities, etc., communicate with the Company from the perspective of employees, and handle employee complaints, suggestions and so on. The activities are categorized as follows:

- Providing welfare canteen and welfare supermarket for employees, in which food ingredients are sourced from large supermarkets so that employees could have healthy and safe meals;

- Providing commute transport and dormitory for non-local employees; and

- Organising birthday event each month for employees to celebrate birthday in the month and to share cakes, play games and receive birthday gifts.

The Group is in strict compliance with policies pertaining to remuneration and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity, anti-discrimination and other treatment and benefits as set out in the "Employee Handbook". In the event that it is necessary to dismiss an employee, the Group will ensure that the dismissal procedures are in compliance with internal policies (such as the "Employee Handbook") and relevant laws and regulations. Termination of employment contracts will be based on reasonable and lawful grounds, and the Group will first give verbal warnings and then issue warning letters to employees whose work performance is unsatisfactory or who repeatedly make mistakes. For employees who do not improve their performance, the Group will consider dismissal in accordance with relevant laws and regulations, implement the necessary severance procedures and provide adequate severance compensation.

During FY2023, there were a total of 16 employees leaving the Group with a total turnover rate of 13.91%[7] (FY2022: a total of 43 employees leaving the Group with a total turnover rate of 34.96%[7]). Set out below is a breakdown of the employee turnover rate by gender, age group and region:

| | **FY2023** | | FY2022 | |
|---|---|---|---|---|
| | **Number of employees** | **Turnover rate[8]** | Number of employees | Turnover rate[8] |
| **By gender** | | | | |
| Male | **9** | **11.39%** | 36 | 43.90% |
| Female | **7** | **19.44%** | 7 | 17.07% |
| **By age group** | | | | |
| 30 or below | **7** | **63.64%** | 7 | 50.00% |
| 31 to 50 | **6** | **7.23%** | 33 | 37.50% |
| 51 or above | **3** | **14.29%** | 3 | 14.29% |
| **By region** | | | | |
| PRC | **16** | **14.95%** | 40 | 34.78% |
| Hong Kong | **–** | **–** | 3 | 42.86% |
| Australia | **–** | **–** | – | – |

*Notes*:

7. Total turnover rate of employees is calculated based on the total number of employees resigned during the reporting period divided by the total number of employees as at the end of the reporting period.

8. Employee turnover rate by category is calculated based on the number of employees of a particular category resigned during the reporting period divided by the total number of employees of such category as at the end of the reporting period.

*Occupational health and safety*

The Group pays high attention to occupational health of staff, targets zero accident in operation and is committed to providing a healthy and safe working environment to prevent its employees from suffering occupational hazards.

The Group strictly complied with local laws and regulations relating to health and safety, such as the "Safe Production Law of the People's Republic of China (中華人民共和國安全生產法)" and the "Regulations on Work-Related Injury Insurance of the People's Republic of China (中華人民共和國工傷保險條例)". During FY2023, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to health and safety that would have a significant impact on the Group. In addition, there were no significant fines or sanctions imposed on the Group as the result of non-compliance with relevant laws and regulations during FY2023.

During FY2023, the Group had no work-related injury incident (FY2022: nil), and loss of working days caused by occupational hazards was nil (FY2022: nil). In addition, the Group had no work-related fatal incident in the past three years, including FY2023.

The Group actively promotes establishment of safe production and occupational health and safety system. For example,悉雅特萬科思自動化(杭州)有限公司, being the Group's subsidiary, has obtained OHSAS18001 Occupational Health and Safety Management System Certification and Work Safety Standardization Certificate (Level 2) (安全生產標準化證書(二級)). To ensure employees' safety in production, the following mechanism has been established: Management System for Safe Production is established to specify the leaders of the Group as the first person in charge of safe production. A safety committee is established for the identification, prevention and recording of hidden safety dangers. Machines and equipment are maintained regularly and assigned to person-in-charge. Trainings on safe operation standards for specific positions are enhanced to ensure standardised operation.

To prevent occurrence of disasters and accidents, the Group enhances the promotion and trainings on labour protection and precautions and prevention and control of occupational diseases. First-aid and fire drill exercises are conducted regularly to persistently raise the occupational safety awareness of employees. The Group also reinforces checkings on important positions to promote the proper use of labour protection supplies and protect employees' health and safety.

The Group has also implemented various measures to create healthy indoor working environment for employees. For example, professional cleaners are required to clean the office an hour before working hour begins every day and to clean common facilities such as lavatories and conference rooms regularly as required. Air-conditioning system and air filters are cleaned regularly to maintain good indoor air quality. Professional cleaning companies are engaged to clean carpets and maintain the floor in the workplace. Professional drinking water system is installed with water quality checked and announced each quarter.

In addition to general social insurance like medical and pension insurance, the Group has also purchased critical illness insurance for employees of certain subsidiaries and traffic accident damage insurance for frequent travelling employees. Annual physical examination is arranged for all employees and occupational health check is arranged for employees at certain special positions. The Group monitors work-related injury rate continuously and considers relevant data as key indicators for the evaluation of safety performance.

During the prevention and control of the COVID-19 pandemic, MOX has adopted 10 measures to ensure its employees would resume work in a safe environment in accordance with the requirements of Jiaxing Science and Technology City Management Committee, pursuant to which, (i) no new employees will be recruited from the regions where the pandemic situation is severe during the pandemic period; (ii) all non-local employees who have returned to work will be quarantined 14 days by the respective entities for which they serve; (iii) all non-local employees who have not returned to work will be temporarily suspended from returning to work; (iv) the employees who have recently passed or stayed in the regions where the pandemic situation is severe are not allowed to work; (v) the related knowledge of the COVID-19 is provided to all employees, and preventive measures are extensively promoted to ensure that all employees are in compliance with the pandemic prevention rules; (vi) body temperature measurements shall be taken at least twice each day, and the Group must provide protective materials such as masks, disinfectants and hand sanitizers; (vii) a reasonable number of separate quarantine and observation rooms shall be set up by the employer; (viii) central cold air- conditioning shall be shut down and ventilation shall be maintained at workshops; (ix) an emergency plan shall be well prepared. If any employee is found to have symptoms such as fever and respiratory tract infections, they must be quarantined as soon as possible, which shall be reported to the local economic development office and pandemic prevention department. In this regard, the local epidemic prevention personnel shall handle these cases; and (x) we will strictly implement the relevant requirements set by other levels of government bodies and prevention and control teams.

*Employee development and training*

The Group believes that nurturing talents lays the foundation for corporate development. As such, the Group actively promotes talent strategy of "Respecting science, respecting knowledge, continuous learning, striving for performance, teamwork, respecting individuality" and regards talents as strategic and value-adding resources of first priority to conduct in-depth development and operation. The Group focuses on nurturing talents and management staff and assigns them work with flexibility. On-the-job training and career opportunities are particularly emphasised. Through serialised talent training programs including "occupation development training camp", "induction programs", "manager research camp" and "senior management motivation camp", supplemented with the knowledge sharing platform of Synertone Online College, a training system covering four major aspects, namely online training, daily training, focused training and external training, was established. The system provides rich resources to support career development and personal values of employees, and integrates the core values of "seeking mutual development, abiding by ethics, pushing the limits, pursuing effectiveness, efficiency, excellence" with the Group's daily work.

Within the reporting scope of this Report, relevant employees of the Group have participated in relevant professional training courses organized by various professional organizations. All the employees have been trained[9],and the average training hours was 5.00 hours[10] (FY2022: all the employees have been trained[9], and the average training hours was 6.00 hours[10]). Relevant training data by gender and category of employees are as follows:

| | **FY2023** | | FY2022 | |
|---|---|---|---|---|
| | **Percentage of employees trained[11]** | **Average training hours[12]** | Percentage of employees trained[11] | Average training hours[12] |
| **By gender** | | | | |
| Male | **63.89%** | **5.00** | 57.14% | 6.00 |
| Female | **36.11%** | **5.00** | 42.86% | 6.00 |
| **By category of employees** | | | | |
| Senior management | **8.33%** | **5.00** | 4.76% | 6.00 |
| Middle management | **8.33%** | **5.00** | 11.90% | 6.00 |
| General staff | **83.34%** | **5.00** | 83.34% | 6.00 |

*Notes:*

9. Percentage of the total number of employees trained is calculated based on the total number of employees trained during the reporting period divided by the total number of employees during the reporting period, excluding former employees.

10. Average training hours per employee are calculated based on the total training hours during the reporting period divided by the total number of employees during the reporting period, excluding former employees.

11. Percentage of employees trained is calculated based on the number of employees of a particular category trained during the reporting period divided by the total number of employees trained during the reporting period, excluding former employees.

12. Average training hours are calculated based on the number of training hours of employees of a particular category during the financial year divided by the total number of employees of a particular category during the reporting period, excluding former employees.

*Labour standards*

The Group respects human rights and strictly prohibits any unethical employment practices, including child labor and forced labor in the workplace. The Group requires new employees to provide true and accurate personal information when they join the Group. Human resources personnel strictly review the information provided in the recruitment process, including physical inspection certificates, academic certificates, identity cards, registered residence and other information. The Group has established a comprehensive recruitment process that requires to check candidates' backgrounds and a formal reporting process to handle any exceptions, and also conducts regular reviews and inspections to prevent any child labor or forced labor in its operations.

In addition, employees work overtime on a voluntary basis and the Group undertakes not to force employees to work overtime in order to avoid violating labor standards and to protect employees' rights and interests. All overtime work must be reported directly to the superior supervisor and approved by the unit manager and reviewed by the president's office before being counted as overtime work. In principle, executive staff will be given the same amount of compensatory time off for overtime work on weekdays, and if compensatory time off cannot be arranged, compensation will be made in the form of overtime pay in accordance with the relevant national regulations to ensure that employees can receive corresponding rewards.

The Group strictly complies with "Provisions on the Prohibition of Using Child Labour (禁止使用童工規定)" of the People's Republic of China, Employment of Children Regulations of Hong Kong and other laws and regulations related to labour standards. During FY2023, the Group was not aware of any material non-compliance with laws and regulations relating to child labour and forced labour that had a material impact on it. In addition, there was no significant fines or sanctions as the result of non-compliance with relevant laws and regulations during FY2023.

*Supply chain management*

The Group insists on treating every detail in daily operation seriously in a responsible manner. From the areas of supply chain, product responsibility and anti-corruption, the Group keeps perfecting its operations management, persistently creating value for customers and benefits for the society.

*Supply chain management*

"Creativity", "Safety", "Environmental Protection", "Sustainable Development" are the main factors considered by the Group when choosing suppliers, monitoring their performance and communicating with them.

The Group has developed stable relations with a number of its major suppliers and has implemented strict criteria in selecting raw material suppliers and product components suppliers to ensure the quality of its products. Prior to the procurement of materials from the suppliers and in the course of tendering and quotation, the Group has complied with laws and regulations such as the "Bidding Law of the People's Republic of China (中華人民共和國招標投標法)" as well as the internal procurement guidance to carry out strict examination procedures on the qualification of the suppliers. Suppliers' competencies and performance in respect of appropriate cost, quality, technologies, environmental protection awareness, moral conduct and social responsibility are examined through business meetings, factory visit and review of labour and employment status, random checking and cost calculation, ensuring the best products were offered by the suitable supplier. The Group's purchasing committee takes part in the selection processes of key suppliers, material procurement tendering projects and procurement projects with strategic risk, and the final decisions of procurement contracts for key projects. During FY2023, the Group had a total of 92 (FY2022: 162) suppliers, all of which were located in the PRC (FY 2022:161 were located in the PRC and 1 was located in Hong Kong). The Group has implemented the above practices in relation to the engagement of suppliers to all suppliers.

The Group pays great attention to the product quality of its suppliers. The Group only purchases raw materials and components and parts from suppliers that have passed its quality and reliability tests. The Group randomly inspects raw materials and product components from its suppliers and returns products that fail the inspection. The Group also conducts an annual assessment of key suppliers and new suppliers every year to ensure that the materials produced by these suppliers meet the Group's quality requirements.

The Group maintains close relationship and collaborates with suppliers and contractors to ensure that their operations fully comply with local laws and regulations environmentally and socially. We share our sustainable development guidelines in order to guarantee their business activities are in line with the principles of sustainable development. The Group also encourages its cooperating suppliers to obtain international certificates such as ISO9001 Quality Management System Certificate and ISO14001 Environmental Management System Certificate and to provide environmental-friendly and non-hazardous materials, so that chemical materials contained in the Group's products would fall below the limits stipulated by the relevant laws and regulations or the Group's customers. Furthermore, the Group encourages its suppliers to implement a systematic environmental protection and life-cycle management for their products, achieving green design, green production and control the usage of different restricted materials from their origins, hence building up a green supply chain.

To prohibit suppliers from providing gifts, certificates, loans, hospitality, services or assistance in an improper manner, the Group requires its suppliers to follow and enter into a code of conduct for ethical standard and commercial behavior prepared by the Group. Suppliers are also required to comply with the local laws and regulations in relation to bribery. Moreover, in respect of terms and conditions for procurement, suppliers are required to comply with the laws and regulations relating to the prohibition of using child-labour, forced labour and occupational discrimination as set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work and the United Nations Guiding Principles on Business and Human Rights. The Group also monitors regularly the compliance of suppliers with those laws and regulations and principles through self-declaration and on-site examination.

### *Product responsibility*

The Group places great importance on product quality and corporate reputation and is committed to providing quality products and services. The Group has strictly complied with local laws and regulations relating to product responsibility, including the "Product Quality Law of The People's Republic of China (中華人民共和國產品質量法)", "Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法)", "Advertising Law of the People's Republic of China (中華人民共和國廣告法)" and the Personal Data (Privacy) Ordinance of Hong Kong. During FY2023, the Group was not aware of any material non-compliance with relevant laws and regulations relating to health and safety, advertising, labeling and privacy matters relating to products and services provided by the Group and methods of redress that have a significant impact on the Group. In addition, there was no report of significant fines during FY2023.

#### Product quality control

The Group insists on delivering quality products to customers. Subsidiaries of the Group engaging in manufacturing have obtained ISO9001 Quality Management System Certificate. Stringent review is carried out in the product development process. Procedures such as material inspection, semi-finished product inspection, finished product inspection, shipping inspection and process inspection etc. are strictly executed, ensuring the products are in good quality and have fulfilled the safety and health requirement. Whenever there is a recall request, the relevant personnel and departments of the Group will formulate and implement a recall plan, stop sales and withdraw products from the market promptly, and effectively recall from the market to protect the health of the consumers. During FY2023, the Group did not have any goods subject to recall due to quality, safety or health reasons (FY2022: none).

When receiving complaint on its products or services, the Group will initiate investigation and studies on the complaint and opinion lodged by customers. Details will be passed to the relevant management personnel within 24 hours and the Group guarantees to give reply within a week. Meanwhile, the relevant sales team is responsible for collecting and consolidating customers' comments on the quality of services and goods etc. so as to prevent the problem from occurring again and solve the problem in a timely and satisfactory manner. The Group was also widely praised by its clients for professional skills and localized service with fast reaction. During FY2023, the Group did not receive any complaint from customers about product quality or customer service quality (FY2022: none).

Customer privacy protection

Ensuring data safety of the Group's customers is another important mission. In the Group's daily operation, the protection of clients' information resources remains top priority. Users' information resources are protected from unauthorized access, usage and leakage through different safety technologies and procedures. Electronic information containing clients' details is kept in the Group's server. All the paper-based documents are kept in a file room. The Group also adopts customer management measures and designates personnel responsible for the maintenance of clients' data. Clients' information will only be used legally for the relevant purpose based on provisions on personal data privacy. The Group assures that the personal and commercial data of the Group's customers are properly kept and used only for authorized commercial purpose, and can only be accessed by staff that are considered necessary. Moreover, the Group's cooperating suppliers shall comply with the same requirements.

Intellectual property protection

The Group puts great emphasis on the protection of intellectual property rights. All of the Group's staff shall follow the internal policy guidance and their awareness of respecting third parties' intellectual property rights is emphasised. The Group possesses or is in the process of applying various patents (including invention patents, utility model patents and appearance patents) in relation to its self-developed communication systems and technologies and building intelligence products design. The Group protects intellectual property rights according to laws and regulations such as the "Patent Law of the People's Republic of China (中華人民共和國專利法)" and "Copyright Law of the People's Republic of China (中華人民共和國著作權法)". During FY2023, there was no non-compliance in relation to the intellectual property rights by the Group or disputes with third parties on the intellectual property rights.

Product labelling and advertising

For advertising and product labelling, the Group strictly complies with laws and regulations such as the "Advertising Law of the People's Republic of China (中華人民共和國廣告法)" and the "Trademark Law of the People's Republic of China (中華人民共和國商標法)". The Group is devoted to providing users with true and accurate information as well as fast and convenient user experience. The Group promotes its products and marketing activities and collects feedback through the use of various platforms such as official website, mobile APP, 3D products module, and social media including WeChat.

*Anti-corruption*

The Group has formulated a code and guidance for business ethics, expressly stating the approach and requirements the Group adopted towards business ethics. The code for business ethics is included in the "Employee Handbook". Any form of corruption, bribery, fraud and money laundering will not be tolerated. The relevant requirements will be explained to all new employees in their induction training. Relevant information is also available on the internal network of the Group for existing employees. The Group requires all its staff to adhere to a high standard of business ethics to protect the interest and business operation of the Group.

The Group has strictly complied with local laws and regulations relating to anti-corruption, such as the "Law of the People's Republic of China on Anti-money Laundering (中華人民共和國反洗錢法)", "Law of the People's Republic of China Against Unfair Competition (中華人民共和國反不正當競爭法)", "Company Law of the People's Republic of China (中華人民共和國公司法)", "Law of the People's Republic of China on Tenders and Bids (中華人民共和國招標投標法)" and "Interim Provisions on the Prohibition of Commercial Bribery (關於禁止商業賄賂行為的暫行規定)". During FY2023, the Group was not aware of any material breach of the laws and regulations relating to the prevention of bribery, extortion, fraud and money laundering that would have a material impact on the Group. During FY2023, no corruption proceedings against the Group's issuers or their employees were found and concluded (FY2022: none).

The Group provides anti-corruption training to assist directors and staff to get familiar and comply with the Group's anti-corruption related policies and eliminate misconduct. The Group believes that anti-corruption training will help to encourage a culture of integrity and discipline and dedication among employees. During FY2023, the Group provided anti-corruption training to 3 directors and 33 employees (FY2022: 3 directors and 39 employees) covering legal knowledges and approval process relating to anti-corruption, aiming at ensuring its directors and employees to be familiar with the right procedures and standards of approving transactions, contracts and other commercial activities, to prevent the occurrence of corruption and immoral behaviors.

The Group has a whistle-blowing policy and system in place. Employees and stakeholders can report any inappropriate acts or dishonest behaviors (e.g. suspicion of corruption, fraud and other forms of criminal offence) directly to the chairman of the Audit Committee of the Board (an independent non-executive director of the Company), to ensure undergoing of independent investigation. During FY2023, the Group did not receive any report of the above cases.

*Community investment*

The Group is committed to acting as a positive strength for the community in which it is operating and has been maintaining close communication and interaction with the community so as to contribute to the community from time to time. The Group strives to enhance its positive impact on the community by partnering with social enterprises and non-profit organizations in Mainland China and Hong Kong.

Being a global responsible corporate citizen, the Group is dedicated to fostering a positive corporate image and enhancing the sense of responsibility through community investments. All employees of the Group are encouraged to lend a helping hand to and support the local community and their neighborhoods. During FY2023, the Group was unable to organize any public welfare activities. This was mainly due to the impact of the global pandemic, which resulted in significant restrictions on the organization and implementation of events. The outbreak and recurrence of the pandemic have forced people to reduce their outings, contacts and gatherings in order to avoid the risk of infection as much as possible. Even though the pandemic prevention measures were relaxed in certain areas last year, the Group's employees were getting infected, which was one of the main reasons why we were unable to organize public welfare activities. Looking ahead, the Group will increase its charity work to meet the needs of the society in which we operate and to make more contributions to society. In particular, we will focus on helping and supporting local communities and neighbors by providing them with the necessary support and assistance.

## ESG REPORTING GUIDE INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

| Mandatory disclosure requirement | Section/statement |
|---|---|
| Governance structure | Board statement – ESG governance structure |
| Reporting principle | Reporting standard |
| Reporting scope | Reporting scope |

| Aspects, General Disclosures and KPIs | Description | Section/statement |
|---|---|---|
| **Aspect A1: Emissions** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | Environment |
| KPI A1.1 | The types of emissions and respective emissions data. | Emission management – Air emissions, GHG emissions, Waste management |
| KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emission management – GHG emissions |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emission management – Waste management |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emission management – Waste management |
| KPI A1.5 | Description of emissions target(s) set and steps taken to achieve them. | Emission management – GHG emissions, Waste management |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Emission management – Waste management |

| Aspects, General Disclosures and KPIs | Description | Section/statement |
|---|---|---|
| **Aspect A2: Use of Resources** | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | Environment |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Use of resources – Energy consumption |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Use of resources – Water resource consumption |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | Use of resources – Energy consumption |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | Use of resources – Water resource consumption |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Use of resources – Packaging materials consumption |
| **Aspect A3: Environment and Natural Resources** | | |
| General Disclosure | Policies on minimising the issuer's significant impacts on the environment and natural resources. | Environment |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Environment and natural resources |
| **Aspect A4: Climate Change** | | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Climate change |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | Climate change |

| Aspects, General Disclosures and KPIs | Description | Section/statement |
|---|---|---|
| **Aspect B1: Employment** | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Employment |
| KPI B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | Employment |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Employment |
| **Aspect B2: Health and Safety** | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to providing a safe working environment and protecting employees from occupational hazards. | Occupational health and safety |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | Occupational health and safety |
| KPI B2.2 | Lost days due to work injury. | Occupational health and safety |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | Occupational health and safety |

| Aspects, General Disclosures and KPIs | Description | Section/statement |
|---|---|---|
| **Aspect B3: Employee Development and Training** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Employee development and training |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Employee development and training |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Employee development and training |
| **Aspect B4: Labour Standards** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to preventing child and forced labour. | Labour standards |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Labour standards |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Labour standards |
| **Aspect B5: Supply Chain Management** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Supply chain management |
| KPI B5.1 | Number of suppliers by geographical region. | Supply chain management |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | Supply chain management |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Supply chain management |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Supply chain management |

| Aspects, General Disclosures and KPIs | Description | Section/statement |
|---|---|---|
| **Aspect B6: Product Responsibility** | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Product responsibility |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Product responsibility – Product quality control |
| KPI B6.2 | Number of products and service-related complaints received and how they are dealt with. | Product responsibility – Product quality control |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Product responsibility– Intellectual property protection |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Product responsibility – Product quality control |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | Product responsibility – Customer privacy protection |

| Aspects, General Disclosures and KPIs | Description | Section/statement |
|---|---|---|
| **Aspect B7: Anti-corruption** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to bribery, extortion, fraud and money laundering. | Anti-corruption |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Anti-corruption |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | Anti-corruption |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | Anti-corruption |
| **Aspect B8: Community Investment** | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Community investment |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Community investment |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Community investment |

# INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**TO THE SHAREHOLDERS OF**
**SYNERTONE COMMUNICATION CORPORATION**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Synertone Communication Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 87 to 175, which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK$43,679,000 during the year ended 31 March 2023 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$50,445,000. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Allowance for expected credit losses assessment of trade receivables**<br><br>Refer to notes 20 and 29 to the consolidated financial statements.<br><br>The Group had gross trade receivables of approximately HK$47,407,000 and allowance for expected credit losses of approximately HK$23,605,000.<br><br>In general, the trade receivable credit terms granted by the Group to the customers ranged between 30 to 180 days. Management performed periodic assessment on the recoverability of the receivables and the sufficiency of provision for allowance for expected credit losses based on information including credit profile of different customers, ageing of the receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the allowance for expected credit losses assessment.<br><br>We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates. | Our procedures in relation to management's allowance for expected credit losses assessment of the trade receivables as at 31 March 2023 included:<br><br>• Understanding the key controls that the Group has implemented to manage and monitor its credit risk;<br><br>• Checking on a sample basis, the ageing profile of the receivables as at 31 March 2023 to the underlying financial records and post year-end settlements to bank receipts;<br><br>• Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with customers; and<br><br>• Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used for determining the expected credit losses.<br><br>We found the management judgement and estimates used to assess the recoverability of the trade receivables and determine the allowance for expected credit losses to be supportable by the available evidence. |

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of Control System business** | |
| Refer to note 16 to the consolidated financial statements. | |
| The Group has goodwill of approximately HK$23,375,000 relating to the control system business as at 31 March 2023. Management performed impairment assessment of control system business and concluded that no impairment loss on goodwill was recognised. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support management's estimates.<br><br>We focused on this area due to the impairment assessment of Control System business involved the use of significant management judgements and estimates. | Our procedures in relation to the management's impairment assessment of Control System business included:<br><br>• Evaluating of the independent external valuer's competence, capabilities and objectivity;<br><br>• Assessing the appropriateness of methodologies used and the key assumptions based on our knowledge of the relevant business and using our valuation experts;<br><br>• Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and<br><br>• Checking, on a sampling basis, the accuracy and relevance of the input data used.<br><br>We found the management judgement and estimates used in impairment assessment were supported by the available evidence. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Hon Koon Fai, Alex.

**HLB Hodgson Impey Cheng Limited**
*Certified Public Accountants*

**Hon Koon Fai, Alex**
Practising Certificate Number: P05029

Hong Kong, 30 June 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2023

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Revenue** | *5* | **60,538** | 114,165 |
| Cost of sales | | **(51,590)** | (91,226) |
| **Gross profit** | | **8,948** | 22,939 |
| Other income | *6* | **3,572** | 6,269 |
| Other gains, net | *6* | **1,800** | 218 |
| Selling and distribution expenses | | **(2,206)** | (4,589) |
| Administrative and other operating expenses | | **(36,847)** | (38,655) |
| Impairment of non-financial assets | *7(c)* | **(821)** | (27,908) |
| Research and development expenditure | *7(c)* | **(4,221)** | (3,978) |
| Allowance for expected credit loss, net | *7(c)* | **(7,261)** | (62,939) |
| **Loss from operations** | | **(37,036)** | (108,643) |
| Finance costs | *7(a)* | **(3,784)** | (4,157) |
| Share of results of associates | | **(2,855)** | (928) |
| **Loss before tax** | *7* | **(43,675)** | (113,728) |
| Income tax expense | *8* | **(4)** | (45) |
| **Loss for the year** | | **(43,679)** | (113,773) |
| **Other comprehensive (loss)/income** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(4,836)** | 2,468 |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(4,836)** | 2,468 |
| **Total comprehensive loss for the year** | | **(48,515)** | (111,305) |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 March 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(40,971)** | (109,678) |
| Non-controlling interests | | **(2,708)** | (4,095) |
| | | **(43,679)** | (113,773) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the Company | | **(45,216)** | (107,423) |
| Non-controlling interests | | **(3,299)** | (3,882) |
| | | **(48,515)** | (111,305) |
| | | **HK cents** | HK cents<br>(Restated) |
| **Loss per share** | | | |
| – Basic and diluted | *12* | **(16.05)** | (45.73) |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **32,283** | 43,432 |
| Right-of-use assets | *15* | **12,828** | 17,055 |
| Goodwill | *16* | **23,375** | 25,228 |
| Interests in associates | *18* | **51,592** | 54,737 |
| Deposits and prepayments | *20* | **377** | 2,073 |
| | | **120,455** | 142,525 |
| **Current assets** | | | |
| Inventories | *19* | **48,462** | 55,293 |
| Trade and other receivables | *20* | **39,475** | 56,894 |
| Amount due from an associate | *21* | **15,286** | 8,731 |
| Cash and cash equivalents | *22* | **2,345** | 8,009 |
| | | **105,568** | 128,927 |
| **Current liabilities** | | | |
| Trade and other payables | *23* | **57,212** | 43,809 |
| Contract liabilities | *24* | **32,222** | 40,730 |
| Bank borrowings | *25* | **62,753** | 72,337 |
| Lease liabilities | *26* | **3,826** | 6,172 |
| | | **156,013** | 163,048 |
| **Net current liabilities** | | **(50,445)** | (34,121) |
| **Total assets less current liabilities** | | **70,010** | 108,404 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 March 2023

| | *Notes* | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Lease liabilities | *26* | **1,641** | 2,969 |
| **Net assets** | | **68,369** | 105,435 |
| **EQUITY** | | | |
| Share capital | *27(b)* | **26,031** | 313,091 |
| Reserves | | **43,095** | (210,198) |
| **Equity attributable to owners of the Company** | | **69,126** | 102,893 |
| **Non-controlling interests** | | **(757)** | 2,542 |
| **Total equity** | | **68,369** | 105,435 |

The consolidated financial statements on pages 87 to 175 were approved and authorised for issue by the board of directors on 30 June 2023 and are signed on its behalf by:

| | |
|---|---|
| **Han Weining** | **Chong Alex Tin Yam** |
| *Director* | *Director* |

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2023

| | | Equity attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 | Other reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2021 | | 258,091 | 844,028 | (90) | (9,996) | (1,146) | (934,669) | 156,218 | 6,424 | 162,642 |
| **Comprehensive loss** | | | | | | | | | | |
| Loss for the year | | – | – | – | – | – | (109,678) | (109,678) | (4,095) | (113,773) |
| **Other comprehensive income** | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | | – | – | – | – | 2,255 | – | 2,255 | 213 | 2,468 |
| **Total comprehensive income/(loss) for the year** | | – | – | – | – | 2,255 | (109,678) | (107,423) | (3,882) | (111,305) |
| Issue of shares | *27(b)* | 55,000 | – | – | – | – | – | 55,000 | – | 55,000 |
| Share issuance cost | | – | (902) | – | – | – | – | (902) | – | (902) |
| **At 31 March 2022 and 1 April 2022** | | 313,091 | 843,126 | (90) | (9,996) | 1,109 | (1,044,347) | 102,893 | 2,542 | 105,435 |
| **Comprehensive loss** | | | | | | | | | | |
| Loss for the year | | **–** | **–** | **–** | **–** | **–** | **(40,971)** | **(40,971)** | **(2,708)** | **(43,679)** |
| **Other comprehensive loss** | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | | **–** | **–** | **–** | **–** | **(4,245)** | **–** | **(4,245)** | **(591)** | **(4,836)** |
| **Total comprehensive loss for the year** | | **–** | **–** | **–** | **–** | **(4,245)** | **(40,971)** | **(45,216)** | **(3,299)** | **(48,515)** |
| Issue of shares | *27(b)* | **12,300** | **–** | **–** | **–** | **–** | **–** | **12,300** | **–** | **12,300** |
| Share issuance cost | | **–** | **(246)** | **–** | **–** | **–** | **–** | **(246)** | **–** | **(246)** |
| Capital Reorganisation | *27(b)* | **(299,360)** | **–** | **–** | **–** | **–** | **299,360** | **–** | **–** | **–** |
| Transaction cost related to Capital Reorganisation | | **–** | **(605)** | **–** | **–** | **–** | **–** | **(605)** | **–** | **(605)** |
| **At 31 March 2023** | | **26,031** | **842,275** | **(90)** | **(9,996)** | **(3,136)** | **(785,958)** | **69,126** | **(757)** | **68,369** |

The nature and purpose of reserves are disclosed in note 27(c).

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2023

| | Note | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before tax | | **(43,675)** | (113,728) |
| Adjustments for: | | | |
| Interest income | | **(190)** | (636) |
| Finance costs | | **3,784** | 4,157 |
| Amortisation of intangible assets | | **–** | 10 |
| Depreciation of property, plant and equipment | | **4,672** | 5,431 |
| Depreciation of right-of-use assets | | **6,168** | 4,819 |
| Written-off of intangible assets | | **–** | 24 |
| Written-off of property, plant and equipment | | **300** | – |
| Reversal of provision for obsolete and slow-moving inventories | | **–** | (277) |
| Share of results of associates | | **2,855** | 928 |
| Allowance for expected credit loss, net | | **7,261** | 62,939 |
| Gain on disposal of property, plant and equipment | | **(1,751)** | – |
| Impairment of non-financial assets | | **821** | 27,908 |
| | | **(19,755)** | (8,425) |
| **Changes in working capital** | | | |
| Decrease/(increase) in inventories | | **2,762** | (2,633) |
| Increase in trade and other receivables | | **(7,750)** | (7,004) |
| Increase in trade and other payables | | **27,546** | 2,080 |
| (Decrease)/increase in contract liabilities | | **(5,515)** | 8,325 |
| **Cash used in operations** | | **(2,712)** | (7,657) |
| Income tax paid | | | |
| The People's Republic of China (the "PRC") | 8(a) | **(4)** | (45) |
| **Net cash used in operating activities** | | **(2,716)** | (7,702) |

| | Notes | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for the purchase of property, plant and equipment | | **(223)** | (10,702) |
| Proceeds from disposal of property, plant and equipment | | **5,102** | 1,097 |
| Payment of loans to independent third parties | | **–** | (18,422) |
| Repayment of loans from independent third parties | | **1,592** | 2,284 |
| Interest received | | **190** | 636 |
| Advance to an associate | | **(7,051)** | (9,164) |
| **Net cash used in investing activities** | | **(390)** | (34,271) |
| **Financing activities** | | | |
| Repayment of lease liabilities | | **(6,544)** | (5,069) |
| Proceeds from bank borrowings | | **74,335** | 86,390 |
| Repayment of bank borrowings | | **(78,607)** | (85,971) |
| Proceeds from placing of new shares | | **12,300** | 55,000 |
| Share issuance cost | | **(246)** | (902) |
| Interest paid | | **(3,467)** | (3,794) |
| Transaction cost related to Capital Reorganisation | | **(605)** | – |
| **Net cash (used in)/generated from financing activities** | | **(2,834)** | 45,654 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5,940)** | 3,681 |
| **Cash and cash equivalents at beginning of the year** | | **8,009** | 4,185 |
| **Effect of foreign exchange rates changes** | | **276** | 143 |
| **Cash and cash equivalents at end of the year** | 22 | **2,345** | 8,009 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash at bank and on hand | 22 | **2,345** | 8,009 |

## 1. GENERAL INFORMATION

Synertone Communication Corporation (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 in the Cayman Islands and the principal place of business in Hong Kong are disclosed in the corporate information section to the annual report.

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 principal activities of the Company and its subsidiaries (the "Group") are principally engaged in (i) design, development and sales of automation control systems and solutions, (ii) design, research and development, manufacture and sales of intelligent systems including video intercom and surveillance systems for residential homes and buildings, and (iii) the rental, maintenance, other related services in relation to computer equipment and machines, information technology infrastructure, and advanced technologies such as robots.

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

According to the register of substantial shareholders maintained by the Company as at 31 March 2023, Excel Time Investments Limited is the substantial corporate shareholder of the Company. The ultimate controlling party of Excel Time Investments Limited is Mr. Han Weining.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual periods beginning on 1 April 2022 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020 |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[1] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1] |

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of preparation of consolidated financial statements *(Continued)*

*Going concern*

In preparing the consolidated financial statements of the Group, the directors have given consideration to the future liquidity of the Group in light of its net loss of approximately HK$43,679,000 incurred for the year ended 31 March 2023 and, as at that date, the Group had net current liabilities of approximately HK$50,445,000.

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

(i) the Group has taken measures to tighten cost control over expenses, manage and expedite receivables and negotiate a compromise with creditors with a view to achieving positive cash flow from operations;

(ii) the Company has completed placing of shares at consideration of HK$15,000,000 on 19 May 2023 and the Company has actively negotiated with stakeholders for the purpose of obtaining further financing when necessary, including but not limited to shareholder's loan, equity financing, bank borrowing and issuance of new convertible bonds to improve the liquidity of the Group;

(iii) the director of the Company, Mr. Han Weining, has stated that he is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due; and

(iv) the Group will look into business and investment opportunities for business expansion and capital injection in order to enhance the long-term growth potential of the Group.

The directors of the Company have reviewed the Group's cash flow projections. The cash flow projections cover a period of not less than twelve months from 31 March 2023.

The directors of the Company are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as they fall due within twelve months from the date of approval of the consolidated financial statements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, since the execution of the above plans and measures are in progress, material uncertainties exist as to whether management of the Group will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. The effect of these adjustments has not been reflected in the consolidated financial statements.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of preparation of consolidated financial statements *(Continued)*

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

### Significant accounting policies

*Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Basis of consolidation (Continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Business combinations*

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

– lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Business combinations (Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Business combinations (Continued)*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

*Goodwill*

Goodwill arising on an acquisition of business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Goodwill (Continued)*

The Group's policy for goodwill arising on the acquisition of an associate is described below.

*Investments in associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Investments in associates (Continued)*

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Property, plant and equipment*

Property, plant and equipment are tangible assets that are held for use in production or supply of goods or services, or for administrative purpose. Property, plant and equipment are stated in the consolidated financial statement of financial position at cost less subsequent accumulated depreciation and subsequent impairment losses, if any.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets, less their residual value over their estimated useful lives using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

| | |
|---|---|
| – Leasehold improvements | 5 years |
| – Plant and machinery | 4–10 years |
| – Furniture, fixtures and equipment | 3–5 years |
| – Motor vehicles | 5–10 years |

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Property, plant and equipment (Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

*Leases*

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases office premises and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Leases (Continued)*

The Group as a lessee *(Continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Leases (Continued)*

The Group as a lessee *(Continued)*

Lease liabilities *(Continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Leases (Continued)*

The Group as a lessee *(Continued)*

Lease modifications *(Continued)*

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentive receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains one or more additional lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component. The associated non-lease components are included in the respective lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Financial instruments*

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Financial instruments (Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets *(Continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets including trade receivables, bill receivables, loan receivables and other receivables, amount due from an associate, deposits and cash and cash equivalents, which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Financial instruments (Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 *(Continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Financial instruments (Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 3 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Financial instruments (Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Financial instruments (Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bank borrowings and lease liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Impairment of property, plant and equipment, right-of-use assets*

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Cash and cash equivalents*

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

*Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the estimated costs necessary to make the sale. Cost necessary to make the sale include incremental costs directly attributable to the sale and non-incremental cost which the Group mush incur to make the sale.

*Employee benefits*

(i) Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

(ii) Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/(loss) before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Taxation (Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

*Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sales of goods are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Revenue recognition*

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Revenue recognition (Continued)*

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

(i) Sale of goods

Revenue from sale of goods for communication technology, building intelligence and control system businesses is recognised at a point in time when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rendering of service

Revenue from maintenance service for computer equipment is recognised over time as services are rendered to customers by reference to the term of maintenance service contract using output method.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Foreign currencies*

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Foreign currencies (Continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

*Borrowing costs*

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

*Government Grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income and other gains, net".

*Related parties*

A party is considered to be related to the Group if:

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Related parties (Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include.

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Significant accounting policies *(Continued)*

*Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief executive officer, who has been identified as the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

*(i) Impairment of non-financial assets (other than goodwill)*

Determining whether there is an impairment requires an estimation of recoverable amounts of the property, plant and equipment, right-of-use assets and interests in associates or the respective cash generating unit in which property, plant and equipment, right-of-use assets and interests in associates which is the higher of value in use and fair value less costs of disposal. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash generating unit to which the asset belongs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the assets of cash generating units and a suitable discount rate in order to calculate the present value. The discount rate represents a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where the actual future cash flows or the revision of estimated future cash flows are less than original estimated future cash flow, a material impairment loss may arise.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

*(ii) Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's production plants. As at 31 March 2023, the carrying amount of goodwill is approximately of HK$23,375,000, net of accumulated impairment losses of HK$209,073,000 (2022: carrying amount of HK$25,228,000, net of accumulated impairment losses of HK$223,226,000). Details of the recoverable amount calculation are disclosed in note 16.

*(iii) Net realisable value of inventories*

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale. The directors estimated the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

*(iv) Expected credit losses on financial assets*

Financial assets with significant balances and credit-impaired are assessed for ECL individually.

The Group uses a provision matrix to calculate ECLs for trade receivables which are not assessed individually. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geography, product type, and customer type and rating). The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

*(iv) Expected credit losses on financial assets (Continued)*

As at 31 March 2023, the carrying amount of trade and other receivables and amount due from an associate are approximately HK$39,852,000 and HK$15,286,000 respectively, net of loss allowance of HK$64,860,000 and HK$592,000 respectively (2022: carrying amount of HK$58,967,000 and HK$8,731,000 respectively, net of loss allowance of HK$68,494,000 and HK$96,000 respectively). Further information about the ECLs on the Group's financial assets are disclosed in note 29(a).

*(v) Estimation of provision for warranty*

The Group generally provides 0 to 3 years warranties to its customers on its products under which faulty products are repaired and replaced. Provision for warranty is made based on possible claims on the products by customers with reference to the percentage of warranty expenses incurred over total sales amounts during the years ended 31 March 2023 and 2022. The management consider that the claims were insignificant to the Group and no provision for warranty has been made in the consolidated financial statements. In case where actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such claim takes place.

## 5. REVENUE

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

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Building intelligence | **25,766** | 60,373 |
| Control system | **33,977** | 47,337 |
| Data centre | **371** | 4,420 |
| Total revenue from contract with customers | **60,114** | 112,130 |
| Add: | | |
| Rental income under HKFRS 16 | **424** | 2,035 |
| Total revenue | **60,538** | 114,165 |

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

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

Disaggregation of the Group's revenue from contracts with customers by geographic markets is disclosed in note 13.

## 6. OTHER INCOME AND OTHER GAINS, NET

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| **Other income** | | |
| Interest income on bank deposits *(note a)* | **13** | 96 |
| Interest income on loan receivables *(note a)* | **177** | 540 |
| Government grants *(note b)* | **1,302** | 562 |
| Value-added taxes refund *(note c)* | **350** | 1,641 |
| Sundry income | **1,730** | 3,430 |
| | **3,572** | 6,269 |
| **Other gains/(losses)** | | |
| Net exchange gain/(loss) | **49** | (35) |
| Gain on disposal of property, plant and equipment | **1,751** | – |
| Written-off of intangible assets | **–** | (24) |
| Reversal of obsolete and slow-moving inventories | **–** | 277 |
| | **1,800** | 218 |
| | **5,372** | 6,487 |

*Notes:*

(a) Interest income from bank deposits and loan receivables represented the total interest income on financial assets not at FVTPL.

(b) These government grants are unconditional government subsidies received by the Group from relevant government bodies in respect of incentive to "hi-tech enterprise", with an amount of approximately HK$1,126,000 (2022: HK$562,000) and Employment Support Scheme provided by the Hong Kong Government with an amount of approximately HK$176,000 (2022: Nil).

(c) Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

## 7. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

### (a) Finance costs

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Interest expense on bank borrowings | **3,467** | 3,794 |
| Finance charges on lease liabilities | **317** | 363 |
| | **3,784** | 4,157 |

### (b) Staff costs (including Directors' emoluments in Note 9)

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Salaries, wages and other benefits | **17,303** | 19,119 |
| Contributions to defined contribution retirement plans | **2,325** | 3,390 |
| | **19,628** | 22,509 |

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

## 7. LOSS BEFORE TAX *(Continued)*

### (b) Staff costs (including Directors' emoluments in Note 9) *(Continued)*

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

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

As at 31 March 2023 and 2022, the Group had no forfeited contributions available to reduce the existing level of contributions.

### (c) Other items

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | **700** | 700 |
| Cost of inventories recognised as expenses | **50,893** | 90,333 |
| Amortisation of intangible assets | **–** | 10 |
| Depreciation of property, plant and equipment *(note 14)* | **4,672** | 5,431 |
| Depreciation of right-of-use assets *(note 15)* | **6,168** | 4,819 |
| Allowance for expected credit loss, net of: | | |
| – Trade receivables | **6,255** | 23,141 |
| – Loan and other receivables | **510** | 39,702 |
| – Amount due from an associate | **496** | 96 |
| Written-off of property, plant and equipment | **300** | – |
| Impairment of non-financial assets: | | |
| – Goodwill *(note 16)* | **–** | 27,908 |
| – Property, plant and equipment *(note 14)* | **821** | – |
| Expenses relating to short term lease | **150** | 147 |
| Research and development expenditure *(note (i))* | **4,221** | 3,978 |

*Note:*

(i) Research and development expenditure for the year ended 31 March 2023 included HK$2,349,000 (2022: HK$3,002,000) relating to staff costs to which the amounts were also included in the respective total amounts disclosed separately in note 7(b).

## 8. INCOME TAX

### (a) Income tax in the consolidated statement of profit or loss

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| **Current tax** | | |
| PRC Enterprise Income Tax ("EIT") *(note (iv))* | – | 11 |
| **Under-provision in respect of prior year** | | |
| PRC EIT | 4 | 34 |
| Income tax expense | 4 | 45 |

*Notes:*

(i) 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.

(ii) 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.

(iii) Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years. No provision for Hong Kong profits tax made in the consolidated financial statements for the years ended 31 March 2023 and 2022 as the Group has not derived any assessable profit arising in Hong Kong for those years.

(iv) The PRC subsidiaries of the Group are subject to PRC EIT at a rate of 25% for both years under the Law of the PRC on EIT and Implementation Regulation of the EIT Law.

(v) 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 but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income 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 tax 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 of 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.

(vi) Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 8. INCOME TAX *(Continued)*

### (b) The tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Loss before tax | **(43,675)** | (113,728) |
| Notional tax on loss before tax, calculated at the rates applicable in the countries concerned | **(7,771)** | (24,006) |
| Tax effect of share of results of associates | **471** | 153 |
| Tax effect of non-deductible expenses | **4,878** | 24,003 |
| Tax effect of non-taxable income | **(311)** | (165) |
| Tax effect of tax losses not recognised | **2,733** | 88 |
| Effect of tax incentive on eligible expenditure *(note)* | **–** | (62) |
| Under-provision in prior years | **4** | 34 |
| Actual tax expense | **4** | 45 |

*Note:*

Certain PRC subsidiaries of the Group enjoyed an additional 50% to 75% (2022: 50% to 75%) tax deduction on research and development costs charged to profit or loss in the calculation of PRC EIT charge.

### (c) Income tax in the consolidated statement of financial position

*Deferred tax assets not recognised*

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK$48,690,000 (2022: HK$33,501,000) as at 31 March 2023 as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation except for tax losses of approximately RMB41,860,000 (2022: RMB31,386,000) in the PRC which is available for carry forward to offset future taxable profit for a period of five years.

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

| | Year ended 31 March 2023 | | | |
|---|---|---|---|---|
| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Executive directors** | | | | |
| Han Weining | | | | |
| *(Chief executive officer)* | 360 | 1,440 | 18 | 1,818 |
| Wang Jie | 100 | – | – | 100 |
| **Independent non-executive directors** | | | | |
| Lam Ying Hung Andy | 100 | – | – | 100 |
| Wang Chen | 100 | – | – | 100 |
| Li Mingqi | 100 | – | 5 | 105 |
| | 760 | 1,440 | 23 | 2,223 |

| | Year ended 31 March 2022 | | | |
|---|---|---|---|---|
| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Executive directors** | | | | |
| Han Weining | | | | |
| *(Chief executive officer)* | 360 | 1,440 | 18 | 1,818 |
| Wang Jie | | | | |
| (Appointed on 15 July 2021) | 71 | – | – | 71 |
| **Independent non-executive directors** | | | | |
| Lam Ying Hung Andy | 100 | – | – | 100 |
| Wang Chen | 100 | – | – | 100 |
| Li Mingqi | 100 | – | 5 | 105 |
| | 731 | 1,440 | 23 | 2,194 |

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During the years ended 31 March 2023 and 2022, no bonus was paid to the executive directors of the Company. No emoluments were paid to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years. There was no arrangement under which a director waived or agreed to waive any emoluments for each of the years ended 31 March 2023 and 2022.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one director (2022: one director), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining four (2022: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Salaries and other emoluments | **2,055** | 2,209 |
| Contributions to retirement benefit schemes | **65** | 36 |
| | **2,120** | 2,245 |

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

| | **2023** | 2022 |
|---|---|---|
| HK$Nil to HK$1,000,000 | **4** | 4 |

No emoluments or incentive payments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for each of the years ended 31 March 2023 and 2022.

## 11. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during each of the years ended 31 March 2023 and 2022, nor has any dividend been proposed since the end of the each reporting period.

## 12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$40,971,000 (2022: approximately HK$109,678,000) and the weighted average number of ordinary shares of the Company in issue during the year:

| | 2023 '000 | 2022 '000 (Restated) |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **255,325** | 239,816 |

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

On 22 December 2022, the Company implemented share consolidation (note 27) and the weighted average number of ordinary shares in issue used in the basic loss per share calculation during the year ended 31 March 2022 was adjusted retrospectively.

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

## 13. SEGMENT REPORTING

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

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

| | |
|---|---|
| Building Intelligence: | Provision of (i) video intercom system and security alarm solutions for residential complexes; and (ii) smart home automation systems for new and existing households. |
| Control System: | Provision of (i) automation hardware and software products, information systems platforms, as well as (ii) the industrial and monitoring and scheduling management system solutions for municipal utilities industry. |
| Data Centre: | Rental and maintenance services in relation to computer equipment and machines, information technology infrastructure and platform and robot and other related services. |

### (a) Segment results, assets and liabilities

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 bases:

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

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

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

In addition to receiving segment information concerning Adjusted EBIT, the Group's chief executive officer is provided with segment information concerning revenue (including inter-segment sales), interest income, finance costs, amortisation of intangible assets, depreciation of property, plant and equipment and right-of-use assets, allowance for expected credit loss, net, written-off of property, plant and equipment and intangible assets, research and development expenditure, reversal of provision for obsolete and slow-moving inventories, impairment of property, plant and equipment, share of results of associates and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

## 13. SEGMENT REPORTING *(Continued)*

### (a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's chief executive officer for the purpose for resource allocation and assessment of segment performance for the years ended 31 March 2023 and 2022 is as follows:

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Building intelligence HK$'000 | Control system HK$'000 | Data centre HK$'000 | Unallocated HK$'000 | Total HK$'000 |
| Revenue from external customers | 25,766 | 33,977 | 795 | – | 60,538 |
| Inter-segment revenue | 1,703 | 1,342 | – | – | 3,045 |
| Reportable segment revenue | 27,469 | 35,319 | 795 | – | 63,583 |
| Reportable segment loss (Adjusted EBIT) | (13,734) | (2,384) | (3,516) | – | (19,634) |
| Interest income | 1 | 12 | – | 177 | 190 |
| Finance costs | (3,499) | (69) | (28) | (188) | (3,784) |
| Depreciation of property, plant and equipment | (2,119) | (225) | (2,007) | (321) | (4,672) |
| Depreciation of right-of-use assets | (581) | (507) | (572) | (4,508) | (6,168) |
| Allowance for expected credit loss, net | (4,257) | (1,248) | (594) | (1,162) | (7,261) |
| Research and development expenditure | (1,903) | (2,318) | – | – | (4,221) |
| Written-off of property, plant and equipment | (300) | – | – | – | (300) |
| Impairment of property, plant and equipment | (821) | – | – | – | (821) |
| Share of results of associates | – | – | – | (2,855) | (2,855) |
| Reportable segment assets | 90,625 | 53,164 | 6,891 | – | 150,680 |
| Interests in associates | – | – | – | 51,592 | 51,592 |
| Addition to non-current segment assets | | | | | |
| – Property, plant and equipment | – | 18 | 205 | – | 223 |
| – Right-of-use assets | – | 557 | 2,140 | – | 2,697 |
| Reportable segment liabilities | 117,461 | 20,018 | 175 | – | 137,654 |

## 13. SEGMENT REPORTING *(Continued)*

### (a) Segment results, assets and liabilities *(Continued)*

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Building intelligence HK$'000 | Control system HK$'000 | Data centre HK$'000 | Unallocated HK$'000 | Total HK$'000 |
| Revenue from external customers | 60,373 | 47,337 | 6,455 | – | 114,165 |
| Inter-segment revenue | 2,787 | 2,154 | – | – | 4,941 |
| Reportable segment revenue | 63,160 | 49,491 | 6,455 | – | 119,106 |
| Reportable segment (loss)/income (Adjusted EBIT) | (23,536) | (34,390) | 1,685 | – | (56,241) |
| Interest income | 45 | 51 | – | 540 | 636 |
| Finance costs | (3,806) | (23) | (37) | (291) | (4,157) |
| Amortisation of intangible assets | (10) | – | – | – | (10) |
| Depreciation of property, plant and equipment | (3,027) | (277) | (1,800) | (327) | (5,431) |
| Depreciation of right-of-use assets | (566) | (451) | (477) | (3,325) | (4,819) |
| Allowance for expected credit loss, net | (12,880) | (9,947) | (175) | (39,937) | (62,939) |
| Written-off of intangible assets | (24) | – | – | – | (24) |
| Impairment of goodwill | – | (27,908) | – | – | (27,908) |
| Research and development expenditure | (157) | (3,821) | – | – | (3,978) |
| Reversal of provision for obsolete and slow-moving inventories | 277 | – | – | – | 277 |
| Share of results of associates | – | – | – | (928) | (928) |
| Reportable segment assets | 104,470 | 61,317 | 9,210 | – | 174,997 |
| Interests in associates | – | – | – | 54,737 | 54,737 |
| Addition to non-current segment assets | | | | | |
| – Property, plant and equipment | 5 | 15 | 9,841 | 841 | 10,702 |
| – Right-of-use assets | 525 | 1,526 | 1,144 | 4,049 | 7,244 |
| Reportable segment liabilities | 127,373 | 23,004 | 868 | – | 151,245 |

## 13. SEGMENT REPORTING *(Continued)*

### (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | 63,583 | 119,106 |
| Elimination of inter-segment revenue | (3,045) | (4,941) |
| Consolidated revenue | 60,538 | 114,165 |
| **Loss** | | |
| Reportable segment loss | (19,634) | (56,241) |
| Allowance for expected credit loss, net | (1,162) | (39,937) |
| Interest income | 190 | 636 |
| Finance costs | (3,784) | (4,157) |
| Share of results of associates | (2,855) | (928) |
| Unallocated corporate expenses | (16,430) | (13,101) |
| Consolidated loss before tax | (43,675) | (113,728) |
| **Assets** | | |
| Reportable segment assets | 150,680 | 174,997 |
| Interests in associates | 51,592 | 54,737 |
| Amount due from an associate | 15,286 | 8,731 |
| Unallocated corporate assets | 8,465 | 32,987 |
| Consolidated total assets | 226,023 | 271,452 |
| **Liabilities** | | |
| Reportable segment liabilities | 137,654 | 151,245 |
| Unallocated corporate liabilities | 20,000 | 14,772 |
| Consolidated total liabilities | 157,654 | 166,017 |

## 13. SEGMENT REPORTING *(Continued)*

### (c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, right-of-use assets, goodwill, interests in associates and deposits and prepayments. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of right-of-use assets and property, plant and equipment is based on the physical location of the asset under consideration. In the case of goodwill and deposits and prepayments, it is based on the location of the operation to which they are allocated. In the case of interests in associates, it is the location of operations of such associates.

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong (place of domicile) | **795** | 6,455 | **11,172** | 17,982 |
| The PRC | **59,557** | 107,217 | **109,283** | 124,543 |
| Overseas | **186** | 493 | **–** | – |
| | **60,538** | 114,165 | **120,455** | 142,525 |

### (d) Information about products and services

The Group's revenue from external customers for each principal type of products and services were set out in note 5.

### (e) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Building intelligence | | |
| – Customer A | **N/A*** | 34,109 |

* Revenue from the customer is less than 10% of the total revenue of the Group.

For the year ended 31 March 2023, no single customer contributed 10% or more to the Group's revenue.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2021 | 45,924 | 4,833 | 3,713 | 919 | 1,294 | 56,683 |
| Additions | – | 383 | – | 10,319 | – | 10,702 |
| Disposal | – | (1,215) | – | (958) | – | (2,173) |
| Effect of foreign currency exchange differences | 1,942 | 197 | 157 | 2,038 | 55 | 4,389 |
| At 31 March 2022 and 1 April 2022 | 47,866 | 4,198 | 3,870 | 12,318 | 1,349 | 69,601 |
| Additions | **–** | **–** | **205** | **18** | **–** | **223** |
| Disposal | **(4,921)** | **–** | **–** | **(5)** | **–** | **(4,926)** |
| Written-off | **–** | **–** | **(748)** | **–** | **–** | **(748)** |
| Effect of foreign currency exchange differences | **(2,935)** | **(205)** | **(414)** | **(289)** | **(142)** | **(3,985)** |
| **At 31 March 2023** | **40,010** | **3,993** | **2,913** | **12,042** | **1,207** | **60,165** |

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 April 2021 | 12,781 | 3,002 | 2,285 | 474 | 740 | 19,282 |
| Charge for the year | 2,233 | 485 | 495 | 1,968 | 250 | 5,431 |
| Disposal | – | (899) | – | (177) | – | (1,076) |
| Effect of foreign currency exchange differences | 572 | 715 | 104 | 1,106 | 35 | 2,532 |
| At 31 March 2022 and 1 April 2022 | 15,586 | 3,303 | 2,884 | 3,371 | 1,025 | 26,169 |
| Charge for the year | **1,984** | **420** | **109** | **2,030** | **129** | **4,672** |
| Disposal | **(1,575)** | **–** | **–** | **–** | **–** | **(1,575)** |
| Written-off | **–** | **–** | **(448)** | **–** | **–** | **(448)** |
| Impairment | **–** | **–** | **502** | **251** | **68** | **821** |
| Effect of foreign currency exchange differences | **(856)** | **(205)** | **(360)** | **(227)** | **(109)** | **(1,757)** |
| **At 31 March 2023** | **15,139** | **3,518** | **2,687** | **5,425** | **1,113** | **27,882** |
| **Carrying amounts** | | | | | | |
| **At 31 March 2023** | **24,871** | **475** | **226** | **6,617** | **94** | **32,283** |
| At 31 March 2022 | 32,280 | 895 | 986 | 8,947 | 324 | 43,432 |

*Note:*

At 31 March 2023, buildings with net book value of HK$24,871,000 (2022: HK$32,280,000) were pledged to banks as one of the collaterals against the secured bank borrowings (note 25).

## 15. RIGHT-OF-USE ASSETS

| | Leasehold land HK$'000 | Office premises HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 April 2021 | 9,301 | 9,793 | 19,094 |
| Addition *(Note (b))* | – | 7,244 | 7,244 |
| Effect of foreign currency exchange differences | 393 | 58 | 451 |
| At 31 March 2022 and 1 April 2022 | 9,694 | 17,095 | 26,789 |
| Addition *(Note (b))* | **–** | **2,697** | **2,697** |
| Effect of foreign currency exchange differences | **(712)** | **(326)** | **(1,038)** |
| **At 31 March 2023** | **8,982** | **19,466** | **28,448** |
| **Accumulated depreciation:** | | | |
| At 1 April 2021 | 1,082 | 3,737 | 4,819 |
| Charge for the year | 196 | 4,623 | 4,819 |
| Effect of foreign currency exchange differences | 69 | 27 | 96 |
| At 31 March 2022 and 1 April 2022 | 1,347 | 8,387 | 9,734 |
| Charge for the year | **197** | **5,971** | **6,168** |
| Effect of foreign currency exchange differences | **(98)** | **(184)** | **(282)** |
| **At 31 March 2023** | **1,446** | **14,174** | **15,620** |
| **Carrying amounts** | | | |
| **At 31 March 2023** | **7,536** | **5,292** | **12,828** |
| At 31 March 2022 | 8,347 | 8,708 | 17,055 |

*Notes:*

(a) At 31 March 2023, leasehold land with net book value of HK$7,536,000 (2022:HK$8,347,000) was pledged to banks as one of the collateral against the secure bank borrowing (note 25).

(b) For the year ended 31 March 2023 and 2022, the Group leases office premises for its operations. Lease contracts are entered into for fixed term of 2 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 16. GOODWILL

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Cost** | | |
| At beginning of the year | **248,454** | 239,613 |
| Effect of foreign currency exchange differences | **(16,006)** | 8,841 |
| At end of the year | **232,448** | 248,454 |
| **Accumulated impairment losses** | | |
| At beginning of the year | **223,226** | 188,312 |
| Impairment of goodwill | **–** | 27,908 |
| Effect of foreign currency exchange differences | **(14,153)** | 7,006 |
| At end of the year | **209,073** | 223,226 |
| **Carrying amount** | **23,375** | 25,228 |

In addition to goodwill, property, plant and equipment and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective cash-generating unit for the purpose of impairment assessment.

## 16. GOODWILL *(Continued)*

Goodwill is allocated to the Group's cash generating units as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Control system | **23,375** | 25,228 |

### Impairment tests for cash-generating units containing goodwill

For the purpose of determining whether goodwill attributable to the control system cash generating unit is impaired, the recoverable amount of the control system cash generating unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the cash generating unit operates. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, corporate tax rate, such estimation is based on the unit's past performance and management's expectations for the market development.

The key assumptions used in value-in-use calculations are as follows:

| | Control system<br>2023<br>% | <br>2022<br>% |
|---|---|---|
| – Long-term growth rate | **2.20** | 2.00 |
| – Pre-tax discount rate | **20.43** | 19.78 |

The long term growth rates used was adopted based on the China long term projected inflation as sourced from the International Monetary Fund. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

During the year ended 31 March 2023, based on management's assessment results in the headroom over the carrying values of control system cash generating unit, and consequently no impairment has been made.

During the year ended 31 March 2022, a segment loss incurred and continuous negative impact of COVID-19 pandemic on control system business, which indicates an impairment assessment is required. The impairment loss has been included in profit or loss as a separate line item. The recoverable amount of the control system amounted to HK$25,994,000 as at 31 March 2022.

Based on management's assessment and by reference to the calculations performed by an independent appraisal firm, ROMA Appraisals Limited, the Group recognised impairment loss of approximately HK$27,908,000 under the control system cash generating unit for the year ended 31 March 2022 as the carrying amounts of those assets related to the cash generating unit exceeded their respective recoverable amounts at the end of the reporting period. As the carrying amount of the cash generating unit have been reduced to their recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment loss. Except for these, any reasonable possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment as at 31 March 2022.

## 17. SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

| Name of subsidiary | Place of incorporation and business | Particulars of issued and paid-up share/ registered capital | Proportion of ownership interest held by the Company – Directly 2023 | Directly 2022 | Indirectly 2023 | Indirectly 2022 | Proportion of voting power held 2023 | 2022 | Principal activities/ place of operation |
|---|---|---|---|---|---|---|---|---|---|
| Ethereum Data Limited ("Ethereum") *(note (e))* | Hong Kong | 10,000 ordinary shares of HK$1 each | 100% | 100% | – | – | 100% | 100% | Rental and maintenance services in relation to computer equipment and machines, information technology infrastructure and platform and robot and other related services/Hong Kong |
| Radio World Holding Limited | BVI | 1,000 ordinary shares of US$1 each | 100% | 100% | – | – | 100% | 100% | Investment holding/Hong Kong |
| MOX Products Pty Limited | BVI | 50,000 ordinary shares of US$1 each | – | – | 100% | 100% | 100% | 100% | Investment holding/Hong Kong |
| 悉雅特萬科思自動化(杭州)有限公司 *(note (a))* | PRC | Registered capital of US$1,000,000 | – | – | 100% | 100% | 100% | 100% | Design, development and sales of automation control systems/PRC |
| 萬科思自動化(上海)有限公司 *(note (b))* | PRC | Registered capital of RMB120,000,000 | – | – | 100% | 100% | 100% | 100% | Design, development and sales of automation control systems/PRC |
| Sense Field Group Limited ("Sense Field") | BVI | 100 ordinary shares of US$1 each | – | – | 85% | 85% | 85% | 85% | Investment holding/Hong Kong |
| MOX Group Limited | BVI | 50,000 ordinary shares of US$1 each | – | – | 85% | 85% | 85% | 85% | Investment holding/Hong Kong |
| 悉雅特樓宇自控(杭州)有限公司 *(note (b))* | PRC | Registered capital of RMB2,483,109.5 | – | – | 85% | 85% | 85% | 85% | Research and development, manufacturing and sales of intelligent building systems including video intercom and surveillance systems for buildings/PRC |

## 17. SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation and business | Particulars of issued and paid-up share/ registered capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held | | Principal activities/ place of operation |
|---|---|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | | | |
| | | | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | |
| 萬科思自控設備(中國)股份有限公司 *(notes (b) and (d))* | PRC | Registered capital of RMB76,431,600 | – | – | 85% | 85% | 85% | 85% | Research and development, manufacturing and sales of intelligent building systems including video intercom and surveillance systems for buildings/ PRC |
| 杭州奧邁智能科技有限公司 *(note (b))* | PRC | Registered capital of RMB5,000,000 | – | – | 85% | 85% | 85% | 85% | Research and development, manufacturing and sales of intelligent building systems including video intercom and surveillance systems for buildings/ PRC |
| One World Clean Energy Investment Co. Limited *(note (c))* | Hong Kong | 10,000 ordinary shares of HK$1 each | – | – | 100% | 100% | 100% | 100% | Inactive/Hong Kong |
| 澳萬樓宇智能設備(上海)有限公司 *(note (b))* | PRC | Registered capital of RMB30,000,000 | – | – | 85% | 85% | 85% | 85% | Sales of intelligent building systems including video intercom and surveillance systems for buildings/ PRC |
| MOX Australia Pty Ltd | BVI | 50,000 ordinary shares of US$1 each | – | – | 85% | 85% | 85% | 85% | Investment holding/Hong Kong |
| 浙江澳萬信息技術有限公司 *(note (a))* | PRC | Registered capital of US$1,700,000 | – | – | 85% | 85% | 85% | 85% | Investment holding/PRC |
| 深圳市九錫能源有限公司 *(note (f))* | PRC | Registered capital of US$1,000,000 | – | N/A | 100% | N/A | 100% | N/A | Inactive/PRC |

## 17. SUBSIDIARIES *(Continued)*

*Notes:*

(a) Registered under the laws of the PRC as a wholly foreign owned enterprise.

(b) Registered under the laws of the PRC as a limited liability company.

(c) On 2 June 2022, the company name changed from Brightect Limited to One World Clean Energy Investment Co. Limited.

(d) The company changed its name from MOX Control IT (China) Limited to 萬科思自控設備(中國)股份有限公司 with effect from 14 December 2021.

(e) On 4 May 2021, the company name has changed from LakeWest Holdings Limited to Ethereum Data Limited.

(f) The company was incorporated in PRC on 20 July 2022 registered under the laws of the PRC as a wholly foreign owned enterprise.

(g) Subsequent to the end of the reporting period, (i) Jade.P Excellence Technology Hong Kong Limited was incorporated in Hong Kong on 25 May 2023 and was directly and wholly owned by Radio World Holding Limited, a direct wholly-owned subsidiary of the Company, and its company name has subsequently changed to Jade Power Lab Hong Kong Limited with effect from 6 June 2023; and (ii) Jade.P Excellence Custody Services Limited was incorporated in Hong Kong on 9 June 2023 and was directly and wholly owned by Jade Power Lab Hong Kong Limited, an indirect wholly-owned subsidiary of the Company, and its company name has subsequently changed to Jade Power Lab Custody Services Limited with effect from 15 June 2023.

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

| | Sense Field and subsidiaries | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| NCI percentage | **15%** | 15% |
| Current assets | **79,618** | 101,999 |
| Non-current assets | **32,796** | 42,321 |
| Current liabilities | **(117,325)** | (127,060) |
| Non-current liabilities | **(136)** | (313) |
| Net (liabilities)/assets | **(5,047)** | 16,947 |
| Carrying amount of NCI | **(757)** | 2,542 |
| Revenue | **27,469** | 63,160 |
| Loss for the year | **(18,053)** | (27,300) |
| Other comprehensive (loss)/income | **(3,940)** | 1,420 |
| Total comprehensive loss | **(21,993)** | (25,880) |
| Loss allocated to NCI | **(2,708)** | (4,095) |
| Total comprehensive loss to NCI | **(3,299)** | (3,882) |
| Cash flows (used in)/generated from operating activities | **(5,038)** | 3,375 |
| Cash flows generated from investing activities | **5,126** | 329 |
| Cash flows used in financing activities | **(246)** | (3,698) |
| Net cash (used in)/generated from cash and cash equivalents | **(158)** | 6 |

## 18. INTERESTS IN ASSOCIATES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Cost of investment in associates | 56,000 | 56,000 |
| Share of post-acquisition loss, net of dividends received | (4,659) | (1,804) |
| Exchange adjustments | 251 | 541 |
| | 51,592 | 54,737 |

On 5 June 2020, the Company entered into the sale and purchase agreement, pursuant to which the Company agreed to purchase the sale shares, representing 20% of the issued share capital in Iogo Workshop Investment Limited ("Iogo", together with its subsidiaries as the "Iogo Group") at a consideration of HK$56,000,000. Upon completion on 19 June 2020, Iogo Group became associates of the Company.

The following is a list of the particulars of the associates, which are unlisted corporate entities whose quoted market price is not available, as at 31 March 2023 and 2022:

| Name of entity | Place of incorporation and business | Proportion of ownership interest held by the Group<br>2023 and 2022 | Proportion of voting rights held by the Group<br>2023 and 2022 | Principal activity |
|---|---|---|---|---|
| Iogo Workshop Investment Limited | BVI | 20% (Direct) | 20% | Investment holding |
| Dolphin International Technology Co., Ltd. | Hong Kong | 20% (Indirect) | 20% | Investment holding |
| 深圳海豚充電科技有限公司 *(note(a))* | PRC | 20% (Indirect) | 20% | Investment holding |
| 深圳市海豚共享科技有限公司 *(note(b))* | PRC | 20% (Indirect) | 20% | Leasing and renting of charging stations for mobile devices and extended value added services |

*Notes:*

(a) Registered under the laws of the PRC as a wholly foreign owned enterprise.

(b) Registered under the laws of the PRC as a limited liability company.

(c) The above associates are accounted for using the equity method in the consolidated financial statements.

(d) The financial year end date for Iogo and its subsidiaries is 31 March.

## 18. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of logo Group:

| logo Group | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Current assets | **18,968** | 28,741 |
| Non-current assets | **19,873** | 19,097 |
| Current liabilities | **(34,339)** | (27,608) |
| Non-current liabilities | **(1,051)** | (1,055) |
| Net assets | **3,451** | 19,175 |
| Revenue | **157** | 753 |
| Loss for the year | **(14,275)** | (4,640) |
| Other comprehensive (loss)/income for the year | **(1,449)** | 825 |
| Total comprehensive loss for the year | **(15,724)** | (3,815) |
| Dividends received from the associate during the year | **–** | – |

Reconciliation of the above summarised financial information to the carrying amount of interests in associates recognised in the consolidated financial statements:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Net assets of the logo Group | **3,451** | 19,175 |
| Proportion of the Group's ownership interest in the logo Group | **20%** | 20% |
| The Group's share of net assets of logo Group | **690** | 3,835 |
| Goodwill | **50,902** | 50,902 |
| Carrying amount of the Group's interest in the logo Group | **51,592** | 54,737 |

## 19. INVENTORIES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Raw materials | **7,506** | 10,260 |
| Work in progress | **13,996** | 10,419 |
| Finished goods | **26,960** | 34,614 |
| | **48,462** | 55,293 |

## 20. TRADE AND OTHER RECEIVABLES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Trade receivables *(notes (a) and (b))* | **47,407** | 47,086 |
| Less: Loss allowance *(note (c))* | **(23,605)** | (27,746) |
| | **23,802** | 19,340 |
| Bill receivables | **154** | 493 |
| Loan receivables *(note (d))* | **21,318** | 37,717 |
| Other receivables *(note (e))* | **23,596** | 28,184 |
| Prepaid value-added and other taxes | **118** | 287 |
| Deposits and prepayments | **12,119** | 13,694 |
| Less: Loss allowance | **(41,255)** | (40,748) |
| | **16,050** | 39,627 |
| | **39,852** | 58,967 |
| Reconciliation to the consolidated statement of financial position: | | |
| Non-current | **377** | 2,073 |
| Current | **39,475** | 56,894 |
| | **39,852** | 58,967 |

## 20. TRADE AND OTHER RECEIVABLES *(Continued)*

*Notes:*

(a) For the year ended 31 March 2023, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (2022: 30 to 180 days). A longer credit period of 181 to 365 days (2022: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers payment history, financial background, transaction volume and length of business relationship with the Group.

(b) The following is an aged analysis of trade receivables, presented based on past due date:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Not yet past due | **20,694** | 11,996 |
| 1–60 days | **2,729** | 2,284 |
| 61–90 days | **1,962** | 1,586 |
| 91–180 days | **340** | 992 |
| 181–365 days | **1,811** | 5,038 |
| Over 365 days | **19,871** | 25,190 |
| | **47,407** | 47,086 |
| Less: Loss allowance *(note 29(a))* | **(23,605)** | (27,746) |
| | **23,802** | 19,340 |

(c) Impairment of trade receivables

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| At beginning of the year | **27,746** | 14,224 |
| Allowance for expected credit loss, net | **6,255** | 23,141 |
| Written-off | **(8,196)** | (10,586) |
| Effect of foreign currency exchange difference | **(2,200)** | 967 |
| At end of the year | **23,605** | 27,746 |

(d) Loan receivables

Loan receivables represent amounts advanced to independent third parties and are unsecured, interest bearing at 8% per annum (2022: 5% to 20% per annum) with full allowance of approximately HK$21,318,000 made as at 31 March 2023.

(e) Amount mainly represents the past due gross outstanding receivable balance at 31 March 2023 of approximately HK$16,831,000 (2022: HK$16,881,000), with full allowance of approximately HK$16,831,000 (2022: HK$16,881,000) arising from one-off respirator masks trading to an independent third party.

Details of impairment assessment of financial assets for the years ended 31 March 2023 and 2022 are set out in note 29(a).

## 21. AMOUNT DUE FROM AN ASSOCIATE

As at 31 March 2023, the carrying amount of amount due from an associate of approximately HK$15,286,000 (2022: HK$8,731,000), net of loss allowance of approximately HK$592,000 (2022: HK$96,000), was unsecured, interest-free and recoverable on demand.

For details of impairment assessment on amount due from an associate, please refer to note 29(a).

## 22. CASH AND CASH EQUIVALENTS

The interest rates on the cash at bank and deposits with banks ranged from 0.001% to 1.10% (2022: 0.001% to 1.78%) per annum.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 23. TRADE AND OTHER PAYABLES

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Trade payables | **18,186** | 8,306 |
| Accrued salaries | **3,213** | 1,545 |
| Accrued expenses | **3,723** | 1,588 |
| Other payables *(note)* | **26,923** | 26,955 |
| Deposit received | **4,416** | 5,110 |
| Financial liabilities measured at amortised cost | **56,461** | 43,504 |
| Other tax payables | **751** | 305 |
| | **57,212** | 43,809 |

*Note:* Amounts include (i) the outstanding payable balance of approximately HK$6,525,000 (2022: HK$6,525,000) arising from one-off respirator masks trading transaction, and (ii) amount due to a director of approximately HK$4,980,000 (2022: Nil), which was unsecured, non-interest bearing and repayable on demand.

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

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| 0–60 days | **2,208** | 2,466 |
| 61–90 days | **8,692** | 530 |
| 91–180 days | **2,474** | 390 |
| 181–365 days | **1,244** | 330 |
| Over 365 days | **3,568** | 4,590 |
| | **18,186** | 8,306 |

## 24. CONTRACT LIABILITIES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Building intelligence | **24,449** | 28,647 |
| Control system | **7,773** | 12,083 |
| Within one year | **32,222** | 40,730 |

As at 1 April 2021, contract liabilities amounted to HK$29,625,000.

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers. The Company considers contract with customer would not have a significant financing component since the customer paid for the goods in advance and the timing of the transfer of those goods is at the discretion of the customer.

Revenue recognised that was included in the contract liabilities balance at the beginning of the year ended 31 March 2023 amounted to HK$13,720,000 (2022:HK$29,625,000).

The contract liabilities relating to sales of building intelligence and control system will be recognised as revenue when the Group fulfil the contract's obligation.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a certain deposit based on the contract value upon acceptance of contract and before construction work commences.

## 25. BANK BORROWINGS

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Bank borrowings: | | |
| – secured *(note (c))* | **62,753** | 72,337 |
| | **62,753** | 72,337 |

## 25. BANK BORROWINGS *(Continued)*

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| The carrying amounts of the above borrowings are repayable based on scheduled repayment dates set out in the loan agreements: | | |
| Within one year | **62,753** | 72,337 |
| The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable: | | |
| Within one year | **62,753** | 72,337 |

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 clause. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). As at 31 March 2023 and 2022, none of the covenants relating to drawn down facilities had been breached.

All of the bank borrowings are carried at amortised cost.

*Notes:*

(a) All the Group's bank borrowings are denominated in RMB.

(b) The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

| | 2023 | 2022 |
|---|---|---|
| Effective interest rates: | | |
| Fixed-rate borrowings | | |
| Secured | **4.15%-6.35%** | 4.35%-6.50% |

(c) At 31 March 2023 and 2022, the secured bank borrowings are secured by buildings of property, plant and equipment and right-of-use assets of the Group (see notes 14 and 15). The secured bank borrowings are also secured by the director's property (see note 32(c)).

## 26. LEASE LIABILITIES

The following tables shows the remaining contractual maturities of the Group's lease liabilities as at 31 March 2023 and 2022:

| | 2023 Present value of the minimum lease payments HK$'000 | 2023 Total minimum lease payments HK$'000 | 2022 Present value of the minimum lease payments HK$'000 | 2022 Total minimum lease payments HK$'000 |
|---|---|---|---|---|
| Within 1 year | **3,826** | **3,953** | 6,172 | 6,319 |
| After 1 year but within 2 years | **1,641** | **1,721** | 2,431 | 2,602 |
| After 2 years but within 3 years | **–** | **–** | 538 | 622 |
| | **5,467** | **5,674** | 9,141 | 9,543 |
| Less: total future interest expenses | | **(207)** | | (402) |
| Total lease liabilities | | **5,467** | | 9,141 |
| Less: non-current portion | | **(1,641)** | | (2,969) |
| Current portion | | **3,826** | | 6,172 |

*Note:*

At 31 March 2023, the weighted average incremental borrowing rates applied to lease liabilities range from 3.70% to 6.175% (2022: 5% to 6.175%).

## 27. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

### (a) Movements in components of equity

| | Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
| At 1 April 2021 | 258,091 | 844,028 | 71,349 | 376 | (1,052,329) | 121,515 |
| **Comprehensive loss** | | | | | | |
| Loss for the year | – | – | – | – | (98,935) | (98,935) |
| **Other comprehensive income** | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | 165 | – | 165 |
| **Total comprehensive income/(loss) for the year** | – | – | – | 165 | (98,935) | (98,770) |
| Issue of shares | 55,000 | – | – | – | – | 55,000 |
| Share issuance cost | – | (902) | – | – | – | (902) |
| At 31 March 2022 and 1 April 2022 | 313,091 | 843,126 | 71,349 | 541 | (1,151,264) | 76,843 |
| **Comprehensive loss** | | | | | | |
| Loss for the year | **–** | **–** | **–** | **–** | **(22,207)** | **(22,207)** |
| **Other comprehensive loss** | | | | | | |
| Exchange differences arising on translation of foreign operations | **–** | **–** | **–** | **(290)** | **–** | **(290)** |
| **Total comprehensive loss for the year** | **–** | **–** | **–** | **(290)** | **(22,207)** | **(22,497)** |
| Issue of shares | **12,300** | **–** | **–** | **–** | **–** | **12,300** |
| Share issuance cost | **–** | **(246)** | **–** | **–** | **–** | **(246)** |
| Capital Reorganisation | **(299,360)** | **–** | **–** | **–** | **299,360** | **–** |
| Transaction cost related to Capital Reorganisation | **–** | **(605)** | **–** | **–** | **–** | **(605)** |
| At 31 March 2023 | **26,031** | **842,275** | **71,349** | **251** | **(874,111)** | **65,795** |

## 27. CAPITAL AND RESERVES *(Continued)*

### (b) Share capital

| | Par value HK$ | Number of shares '000 | Nominal value HK$'000 |
|---|---|---|---|
| **Authorised:** | | | |
| As at 1 April 2021, 31 March 2022 and 1 April 2022 | 0.25 | 1,600,000 | 400,000 |
| Share Consolidation *(Note 3)* | 1.25 | (1,280,000) | – |
| Sub-division *(Note 3)* | 0.1 | 3,680,000 | – |
| **As at 31 March 2023** | **0.1** | **4,000,000** | **400,000** |
| **Issued and fully paid:** | | | |
| As at 1 April 2021 | 0.25 | 1,032,363 | 258,091 |
| Issue of shares *(Note 1)* | 0.25 | 220,000 | 55,000 |
| As at 31 March 2022 and 1 April 2022 | 0.25 | 1,252,363 | 313,091 |
| Issue of shares *(Note 2)* | 0.25 | 49,200 | 12,300 |
| Share Consolidation *(Note 3)* | 1.25 | (1,041,250) | – |
| Capital Reduction *(Note 3)* | 0.1 | – | (299,360) |
| **As at 31 March 2023** | **0.1** | **260,313** | **26,031** |

## 27. CAPITAL AND RESERVES *(Continued)*

### (b) Share capital *(Continued)*

*Notes:*

(1) On 14 April 2021, the Company issued 162,000,000 new shares at consideration of HK$40,500,000 under general mandate to independent third parties at the subscription price of HK$0.25 per share. The net proceeds amounting to HK$39,888,000 have been applied as general working capital and/or further investments of the Group as when the opportunities arise.

On 25 January 2022, the Company issued 58,000,000 new shares at consideration of HK$14,500,000 under general mandate to independent third parties at the subscription price of HK$0.25 per share. The net proceeds amounting to HK$14,210,000 have been applied as general working capital and/or further investments of the Group as when the opportunities arise.

(2) On 3 October 2022, the Company issued 49,200,000 new shares at consideration of HK$12,300,000 under general mandate to an independent third party at the subscription price of HK$0.25 per share. The net proceeds amounting to HK$12,054,000 have been applied as general working capital and/or further investments of the Group as when the opportunities arise.

(3) During the year ended 31 March 2023, the Company conducted the capital reorganisation (the "Capital Reorganisation"), involving (i) the share consolidation (the "Share Consolidation") whereby every five issued and unissued Shares of HK$0.25 each will be consolidated into one consolidated share (the "Consolidated Share") of HK$1.25 each; (ii) the capital reduction (the "Capital Reduction") whereby the par value of each issued Consolidated Share will be reduced from HK$1.25 to HK$0.10 by cancelling the paid up share capital to the extent of HK$1.15 per issued Consolidated Share so that following such reduction, each issued Consolidated Share in the share capital of the Company shall become one new share (the "New Share") with a par value of HK$0.10 each; and (iii) the sub-division (the "Sub-division"), immediately following the Share Consolidation and the Capital Reduction becoming effective, whereby each authorised but unissued Consolidated Share will be sub-divided into 12.5 New Shares with a par value of HK$0.10 each. The credit arising from the Capital Reduction applied towards offsetting the Company's accumulated losses upon the Capital Reduction becoming effective.

The Share Consolidation became effective on 22 December 2022 upon the passing of resolutions by the Shareholders at an extraordinary general meeting of the Company held on 20 December 2022. The Capital Reduction and the Sub-division became effective on 9 March 2023 upon, among others, the further obtaining of a court order by the Company made by the Grand Court of the Cayman Islands confirming the Capital Reduction. For details of the Capital Reorganisation, please refer to the announcements of the Company dated 16 November 2022, 20 December 2022, 27 January 2023 and 9 March 2023 respectively, and the circular of the Company dated 2 December 2022.

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 27. CAPITAL AND RESERVES *(Continued)*

### (c) Nature and purpose of reserves

*(i) Share premium*

Under the Companies Law (2011 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Capital reserve*

The capital reserve of the Group represents the differences between the nominal value of the Company's shares issued and the nominal value of shares of Ethereum (formerly known as LakeWest Holdings Limited) acquired through a reorganisation in the preparation for the listing of the Company's shares on the Stock Exchange in December 2006.

*(iii) Merger reserve*

The merger reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of Ethereum (formerly known as LakeWest Holdings Limited) and its subsidiaries acquired through an exchange of shares in December 2006 pursuant to the reorganisation in the preparation for the listing of the Company's shares on the Stock Exchange, which was not available for distribution.

*(iv) Statutory reserve*

Transfers from retained earnings to statutory reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors. Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into paid-up capital provided that the balance of the statutory reserve fund after such conversion is not less than 25% of the entity's registered capital. The Company's certain subsidiaries in the PRC are required to transfer a minimum of 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations to the statutory reserves until the reserve balances reaches 50% of the registered capital. The transfer must be made before distribution of dividends to owners. The statutory reserve can be utilised in setting off accumulated losses or increasing capital of the respective subsidiary and is non-distributable other than in the event of liquidation.

*(v) Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3.

*(vi) Other reserve*

The other reserve represents the difference between the consideration paid for the further acquisition of 36% equity interest in Sense Field in March 2017 and the carrying value of non-controlling interest derecognised.

## 27. CAPITAL AND RESERVES *(Continued)*

### (d) Distributability of reserves

As at 31 March 2023, the aggregate amount of reserves available for distribution to owners of the Company, which included accumulated losses and share premium, was nil (2022: Nil).

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group monitors its capital structure on the basis of the adjusted net debt to equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is defined as total debt (which includes bank borrowings and lease liabilities) less cash and cash equivalents.

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods was as follows:

| | **31 March 2023 HK$'000** | 31 March 2022 HK$'000 |
|---|---|---|
| Bank borrowings *(note 25)* | **62,753** | 72,337 |
| Leases liabilities *(note 26)* | **5,467** | 9,141 |
| | **68,220** | 81,478 |
| Less: Cash and cash equivalents *(note 22)* | **(2,345)** | (8,009) |
| Net debt | **65,875** | 73,469 |
| Total equity | **68,369** | 105,435 |
| Adjusted gearing ratio | **96%** | 70% |

*Note:*

Total equity includes share capital and reserves at the end of each reporting period.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 28. FINANCIAL INSTRUMENTS BY CATEGORIES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortised cost | **47,227** | 63,494 |
| **Financial liabilities** | | |
| Financial liabilities at amortised costs | **124,681** | 124,982 |

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include, cash and cash equivalent, trade receivables, bill receivables, loan receivables, other receivables, and deposits less loss allowance, amount due from an associate, trade payables, accrued salaries, accrued expenses and other payables, lease liabilities and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to trade and other receivables. The Group's credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit rating agencies, for which the Group considers to have low credit risk.

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 March 2023, the Group has a certain concentration of credit risk as 53% (2022: 33%) of the net trade receivables were due from the Group's five largest customers.

In order to minimise the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its debtors' financial position and condition are performed on each major customer periodically. These evaluations focus on the debtors' past history of making payments when due and current ability to pay, and take into account information specific to the debtors as well as pertaining to the economic environment in which the debtors operate. The Group do not require collateral from its debtors. Debts are usually due within 30 to 180 days from the date of billing.

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL – not credit-impaired | 12-month ECL |
| Watch list | Debtor frequently repays after due dates but usually settle after due date | Lifetime ECL – not credit-impaired | 12-month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

The following table details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

| | *Notes* | External credit rating | Internal credit rating | 12- month or lifetime ECL | 2023 Gross carrying amounts HK$'000 | 2023 Gross carrying amounts HK$'000 | 2022 Gross carrying amounts HK$'000 | 2022 Gross carrying amounts HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | | | | | |
| Trade receivables | *20* | N/A | *Note (i)* | Life-time ECL (collective assessment) | **27,536** | | 21,896 | |
| | | N/A | Loss | Life-time ECL (credit impaired) | **19,871** | **47,407** | 25,190 | 47,086 |
| Loan receivables | *20* | N/A | Low risk | 12m ECL | **–** | | 15,045 | |
| | | N/A | Loss | Life-time ECL (credit impaired) | **21,318** | **21,318** | 22,672 | 37,717 |
| Other receivables | *20* | N/A | Low risk | 12m ECL | **3,745** | | 11,303 | |
| | | N/A | Loss | Life-time ECL (credit impaired) | **19,851** | **23,596** | 16,881 | 28,184 |
| Amount due from an associate | *21* | N/A | Low risk | 12-month ECL | | **15,878** | | 8,827 |
| Deposits | *20* | N/A | Low risk | 12-month ECL | | **2,135** | | 2,261 |
| Cash and cash equivalents | *22* | AA+ | N/A | 12-month ECL | | **2,345** | | 8,009 |

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

*Notes:*

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

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 March 2023:

| | Average loss rate % | Gross carrying amount HK$'000 | Loss allowance HK$'000 |
|---|---|---|---|
| Collective assessment | | | |
| Not yet past due | **9.17%** | **20,694** | **1,897** |
| 0–60 days | **21.81%** | **2,729** | **595** |
| 61–90 days | **28.59%** | **1,962** | **561** |
| 91–180 days | **30.59%** | **340** | **104** |
| 181–365 days | **31.86%** | **1,811** | **577** |
| Individual assessment | **100.00%** | **19,871** | **19,871** |
| | | **47,407** | **23,605** |

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 March 2022:

| | Average loss rate % | Gross carrying amount HK$'000 | Loss allowance HK$'000 |
|---|---|---|---|
| Collective assessment | | | |
| Not yet past due | 6.17% | 11,996 | 740 |
| 0–60 days | 13.84% | 2,284 | 316 |
| 61–90 days | 17.78% | 1,586 | 282 |
| 91–180 days | 19.15% | 992 | 190 |
| 181–365 days | 20.40% | 5,038 | 1,028 |
| Individual assessment | 100.00% | 25,190 | 25,190 |
| | | 47,086 | 27,746 |

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

*Notes: (Continued)*

(i) *(Continued)*

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

For the purpose of assessment of ECLs, expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. Increase in the lifetime ECL for trade receivable are mainly due to deterioration in settlement of trade receivable adjusted with current conditions and group's view of economic conditions over the expected live of receivable. The Group writes off a trade receivable when there is information indicating that the debtor is in serve financial difficulty and there is no realistic prospect of recovery, eg. When the debtor has been placed under liquidation or has entered into bankruptcy proceedings, have significant financial difficulty, or when the trade receivables are over 3 years past due, whichever occurs earlier.

At 31 March 2023, the ECL of debtors with gross carrying amount of approximately HK$27,536,000 (2022: HK$21,896,000) was assessed by using provision matrix for the year ended 31 March 2023. Debtors with significant outstanding balances or credit-impaired with gross carrying amount of approximately HK$19,871,000 (2022: HK$25,190,000) as at 31 March 2023 was assessed individually and full allowance is provided since the receivables are past due for a prolonged period.

(ii) In determining the ECL of the Group's bill receivables, the management assessed the expected losses individually by estimation based on historical credit loss experience, general economic conditions of the relevant industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Based on the result of the foregoing, the management is of the opinion the risk of default by the counterparties of other receivables is not significant and thus no impairment loss allowance was recognised.

In determining the ECL of the Group's other receivables, the management assessed the expected losses individually by estimation based on historical credit loss experience, general economic conditions of the relevant industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. However, due to the worsened general economic condition of the relevant industry in which the debtors operate, the management expected that the recoverability of the payments is uncertain and thus lifetime ECL (credit-impaired) of approximately HK$19,851,000 (2022: HK$16,881,000) was recognised as at 31 March 2023 and allowance for 12m ECL of approximately HK$86,000 (2022: HK$335,000) was recognised as at 31 March 2023. The expected credit loss rates for 12m ECL ranging from 0.03% to 16.76% (2022: 0.04% to 17.75%).

For loan receivables, the directors of the Company are responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In view of the above, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group made specific expected credit loss provision for its loan receivables of HK$21,318,000 (2022: HK$22,672,000). The specific provision was made for two debtors of which, upon the management's individual assessment, the receivable amounts were past due and long outstanding and thus their full recoverability was in doubt. Though ongoing negotiation with those debtors up to date of this report, the expected recoverable amount was not significant and the repayment was delayed as compared to the agreed repayment terms which, to the best knowledge, information and belief of the Directors, was mainly due to the negative impact of COVID-19 pandemic on the financial situation of those debtors. Moreover, the discussion and negotiation on the settlement arrangement with those debtors were still in progress and no formal or legal binding settlement agreement was executed. Accordingly, amid the uncertainty posed by the COVID-19 pandemic on the overall economic situation, the Group considered that it should adopt a more prudent and cautious approach by making full expected credit loss provision particularly for those debtors. The Group is still in the ongoing process of discussing and negotiating with those debtors for a mutually agreed repayment schedule with an aim to recover the outstanding receivable amounts as soon as possible.

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

*Notes: (Continued)*

(ii) *(Continued)*

The allowance for lifetime expected credit losses (credit-impaired) of approximately HK$21,318,000 (2022: HK$22,672,000) was recognised and allowance for 12m ECL of approximately HK$860,000 was recognised for the year ended 31 March 2022. The expected credit loss rates for 12m ECL ranging from 0.92% to 15.82% for the year ended 31 March 2022. Decrease in loss allowance for loan receivables are mainly due to settlement of loan receivables.

For deposits paid, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits based on historical settlement records and past experience. The management of the Company believes that there is no material credit risk inherent in the Group's outstanding balance of deposits.

For amount due from an associate, the Group regularly monitors the business performance of the associate. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate the relevant activities of the associate. The management believes that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 March 2023, the management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of amount due from an associate. The allowance for expected credit loss of approximately HK$592,000 (2022: HK$96,000) was recognised. The expected credit loss rate is 3.73% (2022: 1.09%).

(iii) In relation to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low.

(iv) The movements in the impairment loss on trade receivables, loan receivables, other receivables and amount due from an associate during the year, including both specific and collective loss components, are as follows:

| | Trade receivables lifetime ECL (not credit-impaired) HK$'000 | Trade receivables lifetime ECL (credit-impaired) HK$'000 | Loan receivables 12m ECL HK$'000 | Loan receivables lifetime ECL (credit-impaired) HK$'000 | Other receivables 12m ECL HK$'000 | Other receivables lifetime ECL (credit-impaired) HK$'000 | Amount due from an associate 12m ECL HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| As at 1 April 2021 | 9,816 | 4,408 | 316 | – | 717 | – | – | 15,257 |
| Impairment loss recognised/ (reversed), net | 48 | 23,093 | 860 | 22,356 | (47) | 16,533 | 96 | 62,939 |
| Transfer | (7,661) | 7,661 | (316) | 316 | (348) | 348 | – | – |
| Written-off | – | (10,586) | – | – | – | – | – | (10,586) |
| Effect of foreign currency exchange difference | 353 | 614 | – | – | 13 | – | – | 980 |
| As at 31 March 2022 and 1 April 2022 | 2,556 | 25,190 | 860 | 22,672 | 335 | 16,881 | 96 | 68,590 |
| Impairment loss recognised/ (reversed), net | **5,249** | **1,006** | **(860)** | **(1,354)** | **(160)** | **2,884** | **496** | **7,261** |
| Transfer | **(3,723)** | **3,723** | **–** | **–** | **(86)** | **86** | **–** | **–** |
| Written-off | **–** | **(8,196)** | **–** | **–** | **–** | **–** | **–** | **(8,196)** |
| Effect of foreign currency exchange difference | **(348)** | **(1,852)** | **–** | **–** | **(3)** | **–** | **–** | **(2,203)** |
| **As at 31 March 2023** | **3,734** | **19,871** | **–** | **21,318** | **86** | **19,851** | **592** | **65,452** |

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

*(Continued)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to parent company's board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

| | Weighted average interest rate | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total undiscounted amount | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **As at 31 March 2023** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 56,461 | – | – | – | 56,461 | 56,461 |
| Bank borrowings | 5.42 | 64,977 | – | – | – | 64,977 | 62,753 |
| Lease liabilities | 5.44 | 3,953 | 1,721 | – | – | 5,674 | 5,467 |
| | | 125,391 | 1,721 | – | – | 127,112 | 124,681 |

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (b) Liquidity risk *(Continued)*

| | Weighted average interest rate % | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted amount HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| **As at 31 March 2022** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 43,504 | – | – | – | 43,504 | 43,504 |
| Bank borrowings | 5.19 | 73,086 | – | – | – | 73,086 | 72,337 |
| Lease liabilities | 5.25 | 6,319 | 2,602 | 622 | – | 9,543 | 9,141 |
| | | 122,909 | 2,602 | 622 | – | 126,133 | 124,982 |

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits, loan receivables, bank borrowings and lease liabilities.

The Group is exposed to cash flow interest rate risk in relation to the Group's bank deposits which is mainly concentrated on the fluctuation of market interest rate. The Group is also exposed to fair value interest rate risk in respect of its fixed-rate loan receivables, fixed-rate bank borrowings and lease liabilities.

The Group aims at keeping borrowings at fixed rates.

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

### (c) Interest rate risk *(Continued)*

*(i) Interest rate profile*

The following table details the interest rate profile of the Group's interest-bearing assets and liabilities at the end of the reporting period:

| | 2023 Range of interest rates | 2023 HK$'000 | 2022 Range of interest rates | 2022 HK$'000 |
|---|---|---|---|---|
| **Fixed-rate borrowings:** | | | | |
| Bank borrowings | **4.15%–6.35%** | **62,753** | 4.35%–6.50% | 72,337 |
| Lease liabilities | **3.70%–6.18%** | **5,467** | 5.00%–6.18% | 9,141 |
| | | **68,220** | | 81,478 |
| **Fixed-rate loan receivables:** | | | | |
| Loan receivables | **8.00%** | **–** | 5.00%–20.00% | 14,185 |
| **Variable-rate bank deposits:** | | | | |
| Cash at bank | **0.001%–1.10%** | **2,345** | 0.001%–1.78% | 8,009 |

*(ii) Sensitivity analysis*

Borrowings of the Group which are fixed rate instruments are insensitive to any changes in interest rates. A change in interest rate at the end of the reporting period would not affect profit or loss.

No sensitivity analysis for interest rate risk exposure to variable rate bank deposits is presented as the management considered that the amount involved is insignificant.

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

*(Continued)*

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily US$.

*(i) Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the year-end date.

| | **Exposure to foreign currencies** (expressed in HK$'000) | |
|---|---|---|
| | **2023** | 2022 |
| | **US$** | US$ |
| Trade and other receivables | – | 16,881 |
| Trade and other payables | **(6,525)** | (6,525) |
| Net exposure arising from recognised assets and liabilities | **(6,525)** | 10,356 |

*(ii) Sensitivity analysis*

As the pegged rate between HK$ and US$ would be materially unaffected by any changes in value of US$ against HK$, the directors consider that the sensitivity of the Group's exposure toward the change in foreign exchange note between HK$ and US$ is minimal.

*(iii) Fair value measurement*

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2023 and 2022.

## 30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bank borrowings HK$'000 | Lease liabilities HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 April 2021 | 69,001 | 6,380 | 75,381 |
| Changes from cash flows: | | | |
| – Borrowings raised | 86,390 | – | 86,390 |
| – Repayment of borrowings | (85,971) | – | (85,971) |
| – Repayment of leases liabilities | – | (5,069) | (5,069) |
| – Interest paid | (3,794) | – | (3,794) |
| Non-cash changes | | | |
| – New lease entered | – | 7,244 | 7,244 |
| – Finance costs recognised | 3,794 | 363 | 4,157 |
| – Effect of foreign exchange rate changes | 2,917 | 223 | 3,140 |
| At 31 March 2022 and 1 April 2022 | 72,337 | 9,141 | 81,478 |
| Changes from cash flows: | | | |
| – Borrowings raised | **74,335** | **–** | **74,335** |
| – Repayment of borrowings | **(78,607)** | **–** | **(78,607)** |
| – Repayment of leases liabilities | **–** | **(6,544)** | **(6,544)** |
| – Interest paid | **(3,467)** | **–** | **(3,467)** |
| Non-cash changes | | | |
| – New lease entered | **–** | **2,697** | **2,697** |
| – Finance costs recognised | **3,467** | **317** | **3,784** |
| – Effect of foreign exchange rate changes | **(5,312)** | **(144)** | **(5,456)** |
| **At 31 March 2023** | **62,753** | **5,467** | **68,220** |

## 31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current year's presentation.

## 32. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

### (a) Transactions with related parties

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Sale under Building Intelligence segment – Iogo Group | **46** | 1,660 |

### (b) Transactions with key management personnel

Emoluments for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10 are as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **3,362** | 3,443 |
| Post-employment benefit | **41** | 41 |
| | **3,403** | 3,484 |

Total emoluments is included in "Staff Costs" (see note 7(b)).

### (c) Guarantee

At 31 March 2022, a personal guarantee was given by Mr. Han Weining, the chief executive officer and executive director of the Company with the carrying value of bank borrowing of approximately HK$22,115,000.

## 33. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2023, the loan receivables have been settled by netting trade and other payables of approximately HK$15,125,000.

## 34. EVENT AFTER THE REPORTING PERIOD

### (a) Placing of new shares under the general mandate

On 3 May 2023, the Company entered into a placing agreement (the "2023 Placing Agreement") with Sinomax Securities Limited (the "2023 Placing Agent"), pursuant to which the Company conditionally agreed to place, through the 2023 Placing Agent on a best effort basis, up to 40,000,000 placing shares of the Company of nominal value of HK$0.10 each (the "2023 Placing Shares") at the price (the "2023 Placing Price") of HK$0.375 per 2023 Placing Share to not less than six independent placees (the "2023 Placing").

The completion of the 2023 Placing took place on 19 May 2023 and an aggregate of 40,000,000 2023 Placing Shares were issued and allotted by the Company to not less than six independent placees who were individual investors for cash at the 2023 Placing Price of HK$0.375 per 2023 Placing Share, representing approximately 13.32% of the issued share capital of the Company as enlarged by the allotment and issue of the 2023 Placing Shares immediately upon completion of the 2023 Placing. The aggregate nominal value of the 2023 Placing Shares issued and allotted pursuant to the 2023 Placing was HK$4 million. The net proceeds from the 2023 Placing, after deduction of expenses related to the 2023 Placing, amounted to approximately HK$14.7 million, representing a net price of approximately HK$0.3675 per 2023 Placing Share. For further details, please refer to the announcements of the Company dated 3 May 2023 and 19 May 2023, respectively.

### (b) Engagement in virtual asset-related activities

On 13 June 2023, Radio World Holding Limited (a direct wholly-owned subsidiary of the Company) ("Radio World") entered into a subscription and shareholders agreement with JPEX Holdings Limited ("JPEX"), Fung Wong International Group Holdings Limited ("Fung Wong") and Jade Power Lab Technology Group Limited ("Jade Power") in relation to a joint venture in Jade Power for the operation of the virtual asset trading platform (the "VATP"). Radio World, JPEX and Fung Wong would hold 51%, 25% and 24% (among which 10% would be held on trust by Fung Wong for the purpose of future grant to key personnel as long-term incentives for contributing to Jade Power and the Operator (as defined below)) of Jade Power's issued shares, respectively. Radio World would pay its subscription amount to Jade Power fully in cash, whilst JPEX would provide technology services to Jade Power in satisfaction of all of its subscription amount and Fung Wong would provide consultancy and advisory services to Jade Power in satisfaction of all of its subscription amount.

## 34. EVENT AFTER THE REPORTING PERIOD *(Continued)*

### (b) Engagement in virtual asset-related activities *(Continued)*

The sole business of Jade Power initially would be to operate a VATP in Hong Kong. The VATP would be operated by a direct wholly-owned subsidiary of Jade Power (the "Operator") which had been operating in Hong Kong since May 2023. The Operator intended to apply to the Securities and Futures Commission of Hong Kong for the requisite licenses to operate the VATP in Hong Kong.

For further details, please refer to the announcement of the Company dated 13 June 2023.

### (c) Investment in MOX Group Limited by a subscriber under a share subscription agreement

On 23 June 2023, MOX Group Limited ("MOX") (an indirect 85%-owned subsidiary of the Company), as issuer, entered into a subscription agreement (the "MOX Subscription Agreement") with Hong Kong Haoxuan Co., Limited (the "Subscriber"), as subscriber, and Zhang Pangfei, as guarantor, pursuant to which the Subscriber had agreed to subscribe for, and MOX had agreed to allot and issue to the Subscriber 25,000 new subscription shares of MOX (the "Subscription Shares"), representing approximately 33.33% of the issued share capital of MOX as enlarged by the allotment and issue of the Subscription Shares, at the aggregate subscription price of RMB25,000,000 (the "MOX Subscription").

MOX and its subsidiaries (the "MOX Group") are principally engaged in the Group's building intelligence business. Immediately following the completion of the MOX Subscription, the effective interests in MOX by the Group will become approximately 56.67% and MOX will remain as an indirect non-wholly owned subsidiary of the Company. As at the date of this report, the MOX Subscription has not yet completed and the completion is expected to take place on 24 July 2023 pursuant to the MOX Subscription Agreement. For further details, please refer to the announcement of the Company dated 23 June 2023.

Save as disclosed above, there were no other significant events that have occurred subsequent to the end of the reporting period.

## 35. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | *Note* | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **–** | – |
| Interests in associates | | **51,592** | 54,737 |
| | | **51,592** | 54,737 |
| **Current assets** | | | |
| Other receivables | | **1,980** | 11,171 |
| Amount due from an associate | | **15,286** | 8,731 |
| Amounts due from subsidiaries | | **128** | 3,271 |
| Cash and cash equivalents | | **6** | 30 |
| | | **17,400** | 23,203 |
| **Current liabilities** | | | |
| Accrual and other payables | | **3,197** | 1,097 |
| | | **3,197** | 1,097 |
| **Net current assets** | | **14,203** | 22,106 |
| **Net assets** | | **65,795** | 76,843 |
| **EQUITY** | *27* | | |
| Share capital | | **26,031** | 313,091 |
| Reserves | | **39,764** | (236,248) |
| **Total equity** | | **65,795** | 76,843 |

Approved and authorised for issue by the board of directors on 30 June 2023.

**Han Weining**
*Director*

**Chong Alex Tin Yam**
*Director*

## 36. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 June 2023.

# FIVE YEARS SUMMARY

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **60,538** | 114,165 | 90,281 | 73,243 | 81,005 |
| (Loss)/profit before tax | **(43,675)** | (113,728) | (18,204) | (40,603) | 203,198 |
| Income tax (expense)/credit | **(4)** | (45) | 1,313 | 2,113 | 2,986 |
| (Loss)/profit for the year | **(43,679)** | (113,773) | (16,891) | (38,490) | 206,184 |
| Attributable to: | | | | | |
| Owners of the Company | **(40,971)** | (109,678) | (15,133) | (38,677) | 208,667 |
| Non-controlling interests | **(2,708)** | (4,095) | (1,758) | 187 | (2,483) |
| | **(43,679)** | (113,773) | (16,891) | (38,490) | 206,184 |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **226,023** | 271,452 | 309,714 | 296,288 | 305,502 |
| Total liabilities | **(157,654)** | (166,017) | (147,072) | (123,083) | (166,191) |
| | **68,369** | 105,435 | 162,642 | 173,205 | 139,311 |
| Equity attributable to owners of the Company | **69,126** | 102,893 | 156,218 | 165,568 | 131,395 |
| Non-controlling interests | **(757)** | 2,542 | 6,424 | 7,637 | 7,916 |
| | **68,369** | 105,435 | 162,642 | 173,205 | 139,311 |