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**SYNERTONE**

**協同通信集團有限公司**

**Synertone Communication Corporation**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1613)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 MARCH 2020**

The board (the “**Board**”) of directors (the “**Directors**”) of Synertone Communication Corporation (the “**Company**”, together with its subsidiaries, the “**Group**”) announces the audited consolidated results of the Group for the year ended 31 March 2020 together with the comparative figures for the corresponding period in 2019 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000 (restated)
<b>Continuing operations</b>			
<b>Revenue</b>	4	<b>73,243</b>	79,272
Cost of sales		<u>(46,162)</u>	<u>(48,398)</u>
<b>Gross profit</b>		<b>27,081</b>	30,874
Other income	5	<b>6,123</b>	6,783
Other gains and losses	5	<b>(587)</b>	(1,776)
Selling and distribution expenses		<b>(4,495)</b>	(5,705)
Administrative and other operating expenses		<b>(41,589)</b>	(52,453)
Research and development expenditure		<b>(17,850)</b>	(8,683)
Reversal/(allowance) of expected credit loss, net		<b>2,384</b>	(5,790)
Impairment loss of intangible assets		–	(1,742)
Impairment loss of goodwill		–	<u>(15,000)</u>
<b>Loss from operations</b>		<b>(28,933)</b>	(53,492)
Finance costs	6(a)	<b>(6,362)</b>	(8,389)
Share of results of an associate		<b>(12)</b>	483
Impairment loss of interests in an associate		–	<u>(1,280)</u>
<b>Loss before taxation</b>	6	<b>(35,307)</b>	(62,678)
Income tax	7	<b>2,113</b>	<u>2,986</u>
<b>Loss for the year from continuing operations</b>		<b>(33,194)</b>	<u>(59,692)</u>
<b>Discontinued operations</b>			
(Loss)/profit for the year from discontinued operations	8	<b>(5,296)</b>	<u>265,876</u>
<b>(Loss)/profit for the year</b>		<b>(38,490)</b>	<u>206,184</u>

	<i>Note</i>	<b>2020</b> <b><i>HK\$'000</i></b>	2019 <i>HK\$'000</i> (restated)
<b>(Loss)/profit for the year attributable to owners of the Company:</b>			
– Continuing operations		<b>(33,381)</b>	(57,209)
– Discontinued operation		<u><b>(5,296)</b></u>	<u>265,876</u>
		<u><b>(38,677)</b></u>	<u>208,667</u>
<b>Profit/(loss) for the year attributable to non-controlling interests:</b>			
– Continuing operations		<b>187</b>	(2,483)
– Discontinued operation		<u>–</u>	<u>–</u>
		<u><b>187</b></u>	<u>(2,483)</u>
		<u><b>(38,490)</b></u>	<u>206,184</u>
		<b><i>HK cents</i></b>	<i>HK cents</i> (restated)
<b>(Loss)/earnings per share</b>	<i>10</i>		
For continuing and discontinued operations			
– Basic		<u><b>(4.39)</b></u>	<u>25.38</u>
– Diluted		<u><b>(4.39)</b></u>	<u>25.38</u>
For continuing operations			
– Basic		<u><b>(3.79)</b></u>	<u>(6.96)</u>
– Diluted		<u><b>(3.79)</b></u>	<u>(6.96)</u>

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

*For the year ended 31 March 2020*

	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
<b>(Loss)/profit for the year</b>	<b>(38,490)</b>	206,184
<b>Other comprehensive income/(loss) for the year</b>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	<b>865</b>	(1,809)
Reclassification adjustment of exchange differences on translation upon disposal of subsidiaries	<u><b>(13,053)</b></u>	<u>(2,077)</u>
<b>Other comprehensive loss for the year (net of tax)</b>	<u><b>(12,188)</b></u>	<u>(3,886)</u>
<b>Total comprehensive (loss)/income for the year</b>	<u><b>(50,678)</b></u>	<u>202,298</u>
<b>Attributable to:</b>		
Owners of the Company	<b>(50,399)</b>	205,440
Non-controlling interests	<u><b>(279)</b></u>	<u>(3,142)</u>
	<u><b>(50,678)</b></u>	<u>202,298</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>35,785</b>	49,584
Prepaid lease payments		–	8,297
Right-of-use assets		<b>10,081</b>	–
Intangible assets		<b>4,536</b>	12,755
Goodwill		<b>47,472</b>	50,566
Interests in an associate		–	467
Deposits and prepayments	<i>11</i>	<b>139</b>	–
		<b>98,013</b>	121,669
<b>Current assets</b>			
Inventories		<b>45,811</b>	41,938
Trade and other receivables	<i>11</i>	<b>106,154</b>	131,095
Prepaid lease payments		–	201
Cash and cash equivalents		<b>46,310</b>	10,599
		<b>198,275</b>	183,833
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>31,024</b>	45,492
Contract liabilities		<b>22,283</b>	12,156
Bank and other borrowings		<b>66,139</b>	104,221
Finance leases payable		–	551
Lease liabilities		<b>1,724</b>	–
Amount due to a director		–	1
		<b>121,170</b>	162,421
<b>Net current assets</b>		<b>77,105</b>	21,412
<b>Total assets less current liabilities</b>		<b>175,118</b>	143,081

	<b>2020</b>	2019
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Non-current liabilities</b>		
Finance leases payable	–	124
Lease liabilities	<b>649</b>	–
Deferred tax liabilities	<b>1,264</b>	3,646
	<u><b>1,913</b></u>	<u>3,770</u>
<b>Net assets</b>	<u><b>173,205</b></u>	<u>139,311</u>
<b>Equity</b>		
Share capital	<b>258,091</b>	215,091
Reserves	<b>(92,523)</b>	(83,696)
<b>Equity attributable to owners of the Company</b>	<b>165,568</b>	131,395
<b>Non-controlling interests</b>	<u><b>7,637</b></u>	<u>7,916</u>
<b>Total equity</b>	<u><b>173,205</b></u>	<u>139,311</u>

## Notes:

### 1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company's registered office and the principal place of business in Hong Kong are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Room 1012, 10th Floor, Tsim Sha Tsui Centre, 66 Mody Road, Kowloon, Hong Kong respectively.

On 18 April 2012, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Group is principally engaged in (i) design, development and sale of automation control systems and (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

During the current year, the Group discontinued the business of design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies along with the disposal of subsidiaries (see note 8).

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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

## 2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

### New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs for the first time in the current year:

Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2015–2017 Cycle
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatment

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

#### ***HKFRS 16 Leases***

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“**HKAS 17**”), and the related interpretations.

#### *Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

#### *As a lessor*

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. During the year ended 31 March 2020, application of HKFRS 16 by the Group as a lessor has no material impact on the Group's consolidated financial statements.

#### *As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019.



As at 1 April 2019, the Group recognised additional lease liabilities and right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b) (i) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- (iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties was determined on a portfolio basis;
- (iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

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

### ***Impact on transition***

The following table summarises the impact of transition to HKFRS 16 in accumulated losses as at 1 April 2019:

	<b>1 April 2019</b> <i>HK\$'000</i>
Accumulated losses as at 31 March 2019	(916,206)
Adjustment under HKFRS 16	<u>(1,374)</u>
Accumulated losses as at 1 April 2019 (restated)	<u><u>(917,580)</u></u>

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

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

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

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

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

*Notes:*

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

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

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

	<b>As at 31 March 2019 HK\$'000</b>	<b>Impact on initial application of HKFRS 16 HK\$'000</b>	<b>As at 1 April 2019 HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	49,584	(789)	48,795
Right-of-use assets	–	16,987	16,987
Prepaid lease payments	8,297	(8,297)	–
<b>Total non-current assets</b>	<b>121,669</b>	<b>7,901</b>	<b>129,570</b>
<b>Current assets</b>			
Prepaid lease payments	201	(201)	–
<b>Total current assets</b>	<b>183,833</b>	<b>(201)</b>	<b>183,632</b>
<b>Current liabilities</b>			
Finance leases payable	(551)	551	–
Lease liabilities	–	(4,743)	(4,743)
<b>Total current liabilities</b>	<b>(162,421)</b>	<b>(4,192)</b>	<b>(166,613)</b>
<b>Total assets less current liabilities</b>	<b>143,081</b>	<b>3,508</b>	<b>146,589</b>
<b>Non-current liabilities</b>			
Finance leases payable	(124)	124	–
Lease liabilities	–	(5,006)	(5,006)
<b>Total non-current liabilities</b>	<b>(3,770)</b>	<b>(4,882)</b>	<b>(8,652)</b>
<b>Net assets</b>	<b>139,311</b>	<b>(1,374)</b>	<b>137,937</b>
<b>Equity</b>			
Accumulated losses	(916,206)	(1,374)	(917,580)

### 3. SEGMENT REPORTING

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

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

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

During the year ended 31 March 2020 and 2019, the Group discontinued the operation of its Communication Technology business and Synertone 1 satellite communication business respectively. The segment information does not include any amounts for this discontinued operation.

#### (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 which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, bank and other borrowings, lease liabilities and finance leases payable managed directly by the segments with the exception of corporate liabilities which are unallocated to an individual reportable segment.

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

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

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 2020 and 2019 is as follows:

***Continuing operations***

	<b>2020</b>			
	<b>Building intelligence HK\$'000</b>	<b>Control system HK\$'000</b>	<b>Unallocated HK\$'000</b>	<b>Total HK\$'000</b>
Revenue from external customers	42,426	30,817	–	73,243
Inter-segment revenue	8,123	4,509	–	12,632
Reportable segment revenue	<u>50,549</u>	<u>35,326</u>	<u>–</u>	<u>85,875</u>
Reportable segment loss (Adjusted EBIT)	(970)	(5,364)	–	(6,334)
Interest income	5	4	2,338	2,347
Finance costs	(6,195)	(58)	(109)	(6,362)
Amortisation of intangible assets	(6,544)	(1,129)	–	(7,673)
Depreciation of property, plant and equipment	(3,583)	(31)	(6)	(3,620)
Depreciation of right-of-use assets	(618)	(444)	(1,291)	(2,353)
Reversal/(allowance) of expected credit loss, net	3,941	703	(2,260)	2,384
Research and development expenditure	<u>(3,281)</u>	<u>(2,009)</u>	<u>(12,560)</u>	<u>(17,850)</u>
Reportable segment assets	<u>121,659</u>	<u>76,107</u>	<u>–</u>	<u>197,766</u>
Addition to non-current segment assets				
– Property, plant and equipment	162	110	–	272
– Right-of-use assets	120	–	–	120
Reportable segment liabilities	<u>101,550</u>	<u>16,083</u>	<u>–</u>	<u>117,633</u>

	2019 (restated)			
	Building intelligence <i>HK\$'000</i>	Control system <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	41,996	37,276	–	79,272
Inter-segment revenue	10,184	115	–	10,299
Reportable segment revenue	<u>52,180</u>	<u>37,391</u>	<u>–</u>	<u>89,571</u>
Reportable segment loss (Adjusted EBIT)	(11,722)	(8,048)	–	(19,770)
Interest income	5	219	2,703	2,927
Finance costs	(4,979)	–	(3,410)	(8,389)
Amortisation of prepaid lease payments	(208)	–	–	(208)
Amortisation of intangible assets	(8,078)	(1,206)	–	(9,284)
Depreciation of property, plant and equipment	(4,099)	(27)	(947)	(5,073)
Impairment loss of:				
– Goodwill	–	(15,000)	–	(15,000)
– Intangible assets	(1,742)	–	–	(1,742)
– Trade receivables	(3,959)	(1,831)	–	(5,790)
Research and development expenditure	<u>(8,683)</u>	<u>–</u>	<u>–</u>	<u>(8,683)</u>
Reportable segment assets	<u>198,678</u>	<u>80,366</u>	<u>–</u>	<u>279,044</u>
Addition to non-current segment assets				
– Property, plant and equipment	<u>–</u>	<u>41</u>	<u>20</u>	<u>61</u>
Reportable segment liabilities	<u>140,406</u>	<u>77,712</u>	<u>–</u>	<u>218,118</u>

(b) **Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<i>Continuing operations</i>		
<b>Revenue</b>		
Reportable segment revenue	85,875	89,571
Elimination of inter-segment revenue	<u>(12,632)</u>	<u>(10,299)</u>
Consolidated revenue	<u><u>73,243</u></u>	<u><u>79,272</u></u>
<b>Loss</b>		
Reportable segment loss	(6,334)	(19,770)
Impairment loss of goodwill	–	(15,000)
Impairment loss of intangible assets	–	(1,742)
Reversal of expected credit loss, net	2,384	–
Interest income	2,347	2,927
Finance costs	(6,362)	(8,389)
Share of results of an associate	(12)	483
Impairment loss of interests in an associate	–	(1,280)
Unallocated corporate expenses	<u>(27,330)</u>	<u>(19,907)</u>
Consolidated loss before taxation	<u><u>(35,307)</u></u>	<u><u>(62,678)</u></u>
<b>Assets</b>		
Reportable segment assets		
– Continuing operations	197,766	279,044
– Discontinued operation	–	27,243
Elimination of inter-segment receivables	<u>–</u>	<u>(65,381)</u>
Unallocated corporate assets	<u><u>197,766</u></u> <u>98,522</u>	240,906 <u>64,596</u>
Consolidated total assets	<u><u>296,288</u></u>	<u><u>305,502</u></u>



	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<b>Liabilities</b>		
Reportable segment liabilities		
– Continuing operations	117,633	218,118
– Discontinued operation	–	4,814
Elimination of inter-segment payables	–	(65,381)
	<u>117,633</u>	<u>157,551</u>
Amount due to a director	–	1
Deferred tax liabilities	1,264	3,646
Unallocated corporate liabilities	<u>4,186</u>	<u>4,993</u>
Consolidated total liabilities	<u><u>123,083</u></u>	<u><u>166,191</u></u>

(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, intangible assets and goodwill. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment and right-of-use assets is based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which they are allocated. In the case of interests in an associate, it is the location of operations of such associate.

	Revenue from external customers		Non-current assets	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<i>Continuing operations</i>				
Hong Kong				
(place of domicile)	–	–	1,059	816
PRC	72,757	78,807	96,954	113,738
Overseas	<u>486</u>	<u>465</u>	<u>–</u>	<u>–</u>
	<u><u>73,243</u></u>	<u><u>79,272</u></u>	<u><u>98,013</u></u>	<u><u>114,554</u></u>

(d) **Information about products and services**

The Group's revenue from external customers for each principal type of products were set out in note 4.

(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:

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Building intelligence		
Customer A	<u><b>9,299</b></u>	<u>N/A (Note)</u>

*Note:* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

**4. REVENUE**

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<i>Continuing operations</i>		
Building intelligence	<b>42,426</b>	41,996
Control system	<u><b>30,817</b></u>	<u>37,276</u>
	<u><b>73,243</b></u>	<u>79,272</u>

Revenue from sales of products is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Disaggregation of the Group's revenue from contracts with customers by geographic markets is disclosed in note 3.

## 5. OTHER INCOME AND OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<i>Continuing operations</i>		
<b>Other income</b>		
Interest income on bank deposits	10	232
Interest income on loan receivables	2,337	2,695
Government grants ( <i>note a</i> )	319	83
Value-added taxes refund ( <i>note b</i> )	1,924	2,862
Sundry income	<u>1,533</u>	<u>911</u>
	<u>6,123</u>	<u>6,783</u>
<b>Other gains and losses</b>		
Net exchange loss	(561)	(1,776)
Net loss on disposal of property, plant and equipment	<u>(26)</u>	<u>–</u>
	<u>(587)</u>	<u>(1,776)</u>
	<u><u>5,536</u></u>	<u><u>5,007</u></u>

### Notes:

- (a) These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to “hi-tech enterprise”.
- (b) Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

## 6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

### (a) Finance costs

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<i>Continuing operations</i>		
Interest expense on bank and other borrowings	6,167	7,214
Interest expense on convertible bonds payable	–	1,085
Finance charges on lease liabilities	195	–
Finance charges on finance leases payable	–	90
	<u>–</u>	<u>90</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>6,362</u>	<u>8,389</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<i>Continuing operations</i>		
Salaries, wages and other benefits	19,181	14,853
Contributions to defined contribution retirement plans	2,725	2,285
	<u>2,725</u>	<u>2,285</u>
	<u>21,906</u>	<u>17,138</u>

(c) Other items

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (restated)
<i>Continuing operations</i>		
Auditor's remuneration	800	1,000
Cost of inventories	44,585	46,638
Amortisation of prepaid lease payments	–	208
Amortisation of intangible assets	7,673	9,284
Depreciation of property, plant and equipment	3,620	5,073
Depreciation of right-of-use assets	2,353	–
(Reversal)/allowance of expected credit loss, net	(2,384)	5,790
Impairment loss of intangible assets ( <i>note i</i> )	–	1,742
Impairment loss of goodwill ( <i>note i</i> )	–	15,000
Operating lease charges in respect of leased property	–	4,926
Expenses relating to short term lease	300	–
Research and development expenditure ( <i>note ii</i> )	<u>17,850</u>	<u>8,683</u>

*Notes:*

- (i) Based on management's assessment and by reference to the value-in-use calculations performed by an independent appraisal firm, the Group recognised impairment losses of (1) goodwill of HK\$Nil (2019: HK\$15,000,000), attributable to control system cash generating unit, and (2) intangible assets of HK\$Nil (2019: HK\$1,742,000) in respect of patents and software and trademarks attributable to building intelligence cash generating unit.
- (ii) Research and development expenditure for the year ended 31 March 2020 included HK\$2,596,000 (2019: HK\$Nil) relating to staff costs to which the amounts were also included in the respective total amounts disclosed separately in note 6(b).

## 7. INCOME TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<i>Continuing operations</i>		
<b>Current tax</b>		
PRC Enterprise Income Tax (“EIT”) ( <i>note d</i> )	19	11
<b>Under-provision in respect of prior year</b>		
PRC EIT	–	3
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(2,132)</u>	<u>(3,000)</u>
	<u>(2,113)</u>	<u>(2,986)</u>

### Notes:

- (a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.
- (b) Pursuant to the rules and regulations of the British Virgin Islands (“BVI”), the BVI subsidiaries of the Group are not subject to any income tax in the BVI.
- (c) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the year.
- (d) Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Group, 萬科思自控信息(中國)有限公司 (Wankesi Automation Information (China) Co., Limited), is exempted from PRC EIT for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year was the year 2014.

Other PRC subsidiaries of the Group are subject to PRC EIT at a rate of 25% (2019: 25%).

- (e) Under the EIT Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding 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 taxation arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% upon government approval if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

## 8. DISCONTINUED OPERATIONS

### For the year ended 31 March 2020

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

SCT and Thrive United carried out the Group’s communication technology business, which was discontinued by the Group’s along with the disposal.

The results of the communication technology business for the period from 1 April 2019 to 23 August 2019 have been presented as a discontinued operation in the Group’s consolidated statement of profit or loss for the current year, and the comparative figures in the preceding year has been restated accordingly.

	<b>Period from 1 April 2019 to 23 August 2019 HK\$’000</b>	<b>Year ended 31 March 2019 HK\$’000</b>
Revenue	–	1,733
Cost of sales	–	(5,826)
Gross loss	–	(4,093)
Other income	<b>1,094</b>	2,675
Other gains and losses	<b>(5)</b>	128
Selling and distribution expenses	–	(711)
Administrative and other operating expenses	<b>(1,823)</b>	(18,280)
Research and development expenditure	<b>(1,996)</b>	(40,890)
Allowance of expected credit loss, net	–	(10,956)
Loss from operations	<b>(2,730)</b>	(72,127)
Finance costs	<b>(82)</b>	–
Loss before taxation	<b>(2,812)</b>	(72,127)
Income tax expense	–	–
Loss for the period/year	<b>(2,812)</b>	(72,127)
Loss on disposal of subsidiaries	<b>(2,484)</b>	–
Loss for the period/year from discontinued operation	<b>(5,296)</b>	(72,127)

Loss for the period/year from discontinued operation is arrived at after charging/(crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories recognised as expense	–	774
Government grants ( <i>Note</i> )	<b>(1,094)</b>	–
Depreciation of property, plant and equipment	<b>1,489</b>	4,737
Depreciation of right-of-use assets	<b>587</b>	–
Write-down of inventories	–	5,078
Net exchange loss	<b>5</b>	3
Net gain on disposal of property, plant and equipment	<u>–</u>	<u>(131)</u>

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

**For the year ended 31 March 2019**

On 15 November 2018, the Group disposed of the entire issued share capital of Vastsuccess Holdings Limited (“**Vastsuccess**”) and Synertone Satellite Communication Limited (“**Synertone Satellite**”) to an independent third party, and thereafter Vastsuccess and Synertone Satellite ceased to be subsidiaries of the Group.

Vastsuccess and Synertone Satellite carried out the Group’s Synertone 1 satellite communication business, which was discontinued by the Group’s along with the disposal.



The results of Synertone 1 satellite communication business for the period from 1 April 2018 to 15 November 2018 have been presented as a discontinued operation in the Group's consolidated statement of profit or loss for the year ended 31 March 2019.

	Period from 1 April 2018 to 15 November 2018 <i>HK\$'000</i>
Revenue	–
Cost of sales	<u>–</u>
Gross loss	–
Other income	1,932
Other gains and losses	362,786
Selling and distribution expenses	(1,667)
Administrative and other operating expenses	(3,714)
Allowance of expected credit loss, net	<u>(516)</u>
Profit from operations	358,821
Finance costs	<u>(10,752)</u>
Profit before taxation	348,069
Income tax expense	<u>–</u>
Profit for the period	<u>348,069</u>
Loss on disposal of subsidiaries	<u>(10,066)</u>
Profit for the period from discontinued operation	<u><u>338,003</u></u>

Profit for the period from discontinued operation is arrived at after charging/(crediting):

	2019 HK\$'000
Depreciation of property, plant and equipment	1,049
Finance charges on finance leases payable	10,752
Interest income on bank deposits	(1)
Net exchange loss	13,300
Gain on disposal of property, plant and equipment ( <i>note</i> )	(3,637)
Gain on derecognition of finance leases payable ( <i>note</i> )	(372,449)
Operating lease charges in respect of leased property	1,167
Staff costs	
– Salaries, wages and other benefits	1,557
– Contributions to defined contribution retirement plans	193
	<u>193</u>

*Note:* In October 2018, (i) the Company and Vastsuccess entered into the settlement agreement (the “**Settlement Agreement**”) with the vendor of Synertone 1 satellite bandwidth (the “**Vendor**”) and (ii) Vastsuccess entered into the transfer agreement (the “**Transfer Agreement**”) with the Vendor, pursuant to which, among others, the relevant agreements in respect of the exclusive right to use Synertone 1 satellite bandwidth resources granted by the Vendor to the Group had been terminated as of December 2017 and the Group should settle the outstanding amount of United States Dollars (“**US\$**”) 6,277,419.54 (including the outstanding bandwidth resource fees payable for the fourth service year) (the “**Outstanding Amount**”) due to the Vendor.

In accordance with the relevant agreements, US\$5,000,000 out of the Outstanding Amount has been settled by the Group by transfer of the ownership of the upgraded hub system installed at the gateway stations (the “**Transfer**”) to the Vendor. The Group has accounted for the upgraded hub system as an item of property, plant and equipment within the category of construction-in-progress. Included in the gain on disposal of property, plant and equipment is HK\$3,607,000 attributable to the gain arising from the Transfer to the Vendor.

Due to the early termination of the exclusive right to use Synertone 1 satellite bandwidth resources as stipulated in the relevant agreements, the Group is not liable to pay any of the bandwidth resources fees beyond the fourth service year, and as such the corresponding finance lease payables of HK\$372,449,000 has been reversed and the gain derived from the derecognition of finance leases payable was included in profit for the period from discontinued operation.

## 9. DIVIDENDS

The Directors did not recommend the payment of any dividends in respect of the years ended 31 March 2020 and 2019.

## 10. (LOSS)/EARNINGS PER SHARE

### For continuing and discontinued operations

#### (a) *Basic (loss)/earnings per share*

The calculation of the basic (loss)/earnings per share is based on the loss attributable to owners of the Company of HK\$38,677,000 (2019: profit attributable to owners of the Company of HK\$208,667,000) and the weighted average number of 880,101,000 (2019: 822,127,000) ordinary shares in issue during the year, as adjusted to reflect the effect of the share consolidation of the Company on 24 March 2020.

#### (b) *Diluted (loss)/earnings per share*

The calculation of the diluted (loss)/earnings per share is based on the following:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Earnings</b>		
(Loss)/earnings attributable to owners of the Company for the purpose of diluted (loss)/earnings per share	<u>(38,677)</u>	<u>208,667</u>
	2020 <i>'000</i>	2019 <i>'000</i> (restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>880,101</u>	<u>822,127</u>

The weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share has been adjusted for the consolidation of shares on 24 March 2020.

### For continuing operations

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Earnings</b>		
(Loss)/profit for the year attributable to owners of the Company	(38,677)	208,667
Add: Loss/(profit) for the year from discontinued operation	<u>5,296</u>	<u>(265,876)</u>
Loss for the purposes of basic and diluted loss per share from continuing operations	<u><u>(33,381)</u></u>	<u><u>(57,209)</u></u>

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

### For discontinued operation

Basic and diluted loss per share for the discontinued operation is HK0.60 cent per share (2019: basic and diluted earnings of HK32.34 cents per share), based on the loss for the year from discontinued operation of HK\$5,296,000 (2019: profit for the year from discontinued operation of HK\$265,876,000) and the denominators detailed above for both basic and diluted (loss)/earnings per share.

## 11. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables ( <i>notes a, b</i> )	52,127	141,393
Less: Loss allowance	<u>(16,027)</u>	<u>(93,451)</u>
	<u>36,100</u>	47,942
Bill receivables	1,404	–
Loan receivables	55,575	55,000
Other receivables	8,537	15,672
Prepaid value-added and other taxes	120	63
Deposits and prepayments	7,338	12,418
Less: Loss allowance	<u>(2,781)</u>	<u>–</u>
	<u>70,193</u>	83,153
	<u><u>106,293</u></u>	<u><u>131,095</u></u>
Reconciliation to the consolidated statement of financial position:		
Non-current	139	–
Current	<u>106,154</u>	<u>131,095</u>
	<u><u>106,293</u></u>	<u><u>131,095</u></u>

*Notes:*

- (a) For the year ended 31 March 2020, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (2019: 30 to 180 days). A longer credit period of 181 to 365 days (2019: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.
- (b) The following is an aging analysis of trade receivables, presented based on invoice date:

	<b>2020</b>	2019
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
0-60 days	<b>9,451</b>	12,109
61-90 days	<b>3,195</b>	2,966
91-180 days	<b>4,546</b>	9,732
181-365 days	<b>3,198</b>	6,849
Over 365 days	<b>31,737</b>	109,737
	<b>52,127</b>	141,393
Less: Loss allowance	<b>(16,027)</b>	(93,451)
	<b>36,100</b>	47,942

## 12. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	12,469	19,031
Bill payables	4,487	5,712
Accrued salaries	1,185	3,268
Accrued expenses and other payables	<u>12,802</u>	<u>16,827</u>
Financial liabilities measured at amortised cost	30,943	44,838
Other tax payables	<u>81</u>	<u>654</u>
	<u><u>31,024</u></u>	<u><u>45,492</u></u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–60 days	4,095	6,002
61–90 days	246	647
91–180 days	3,437	2,025
181–365 days	872	680
Over 365 days	<u>3,819</u>	<u>9,677</u>
	<u><u>12,469</u></u>	<u><u>19,031</u></u>

## 13. COMPARATIVE INFORMATION

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

The comparative figures of (loss)/earnings per share attribute to owners of the Company have been restated to reflect the share consolidation which was effective on 24 March 2020.

In addition, the consolidated statement of profit or loss has been restated as if the operation discontinued during the current year has been discontinued at the beginning of the comparative period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is a provider of industrial and building automation solutions and integrated communication systems. The Group provides its systems and solutions products through research and development and acquisition of relevant intellectual property rights and technology knowhow from third parties. During the financial year ended 31 March 2020 (“**FY2020**”), the Group’s continuing operations include (i) design, development and sale of automation control systems and (ii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

#### *Control system operations*

MOX Products Pty Limited, which is wholly-owned by the Group, and its subsidiaries (the “**MOX Group**”), carry out the control system business to provide customers with automation control systems. Such control systems are widely used in various industries to monitor pressure, temperature, fluid levels, traffic condition etc., including airport control and public utilities control. The MOX Group has established a solid customer base ranging from large listed corporations to governmental entities, municipal utilities (fresh water, sewage, gas and city lights) as well as power generation plants.

Due to the outbreak of the COVID-19 epidemic, the customer orders for and the production of control system have been suspended and disrupted in the final quarter of FY2020. Accordingly, the external revenue recorded by the Group’s control system segment decreased to HK\$30.8 million for FY2020 (2019: 37.3 million) while operating loss recorded for the control system segment decreased to HK\$5.4 million (2019: 8.0 million).

#### *Building intelligence operations*

Building intelligence business mainly provides customers with (i) video intercom system and security alarm solutions for residential complexes; and (ii) smart home devices and systems for households.

The Company’s 85%-owned subsidiary Sense Field Group Limited (“**Sense Field**”, together with its subsidiaries, the “**Sense Field Group**”) is principally engaged in the design, development and manufacturing various building intelligence products in its production facility located at Jiaxing Science City in the Zhejiang province of the PRC. The Sense Field Group has developed an efficient and unified manufacturing control process with ISO9001 certification. A subsidiary of the Sense Field Group has been accredited high technology enterprise status with continuing new products and software developments.

Most of the customers of the Sense Field Group are major property developers or building systems integrators. Over the years, the Sense Field Group has established a sales network in not less than 23 first and second tier cities across the PRC.

During FY2020, the sales of the Group's "MOX" brand video intercom and surveillance system products remained stable along with the real estate market of China that continually drives demand of its products. The external revenue of the Group's building intelligence segment was HK\$42.4 million for the year (2019: HK\$42.0 million). With the effort of adopting stricter control over production cost and expenses by the Sense Field Group, its operating loss was significantly reduced to HK\$1.0 million for the year (2019: HK\$11.7 million). The EBITDA, being the earnings before interest, taxes, depreciation and amortization, recorded by the Sense Field Group for FY2020 was HK\$9.8 million, which represents a positive indicator on the operating performance and profitability of the Group's building intelligence business.

Leveraging the large installation base and advanced technology, the Sense Field Group has been making progress in the home automation markets, both in China and in overseas countries such as Australia, Israel and Thailand. Its suite of home automation products are proven, and leading-edge, creating some exciting growth potential in new and existing dwellings markets.

#### ***Discontinued operations of communication technology***

During FY2020, the Group also engaged in the communication technology business of manufacturing and assembling of the core components of the digital trunking system and very small aperture terminal satellite system at its production facilities in Shenzhen. In August 2019, the Group disposed of this communication technology business in light of the negative outlook and the lack of market demand for the Group's specialised communication systems and products. During the year ended 31 March 2020, the Group recognized a loss of HK\$5.3 million for this discontinued operation in the communication technology business.

#### ***Business prospects***

As there is a sign of stabilisation in the COVID-19 epidemic situation in China recently, the Group's businesses in both the control system operation and the building intelligence operation have started to resume since the second quarter of 2020. It is expected that the performance of our automation control systems and intelligent building systems businesses will recover gradually afterwards.



### ***Future fund raising and investment opportunities***

The Company will continue to explore opportunities for new investments or mergers and acquisitions which can expand or diversify the Group's business and will bring long-term benefit to the Group. This intention is evidenced by the recent acquisition of 100% equity interest in Wellington Financial Limited, which is principally engaged in securities trading and brokerage, in April 2020 and the acquisition of 20% equity interest in Iogo Workshop Investment Limited ("**Iogo Workshop**"), which is principally engaged in the leasing of charging stations for mobile devices, in June 2020. For the purpose of financing the Group's current businesses or any potential investment or acquisitions in the future, the Company is also continuously seeking and assessing any potential fund-raising opportunities. The Company will make announcement(s) in respect thereof as required by the Listing Rules should they materialize.

## **FINANCIAL REVIEW**

### ***Revenue***

The Group recorded a revenue from its continuing operations of approximately HK\$73.2 million for the year ended 31 March 2020, representing a decrease of approximately HK\$6.1 million or 7.7% as compared to approximately HK\$79.3 million for the year ended 31 March 2019.

During the year under review, the Group derived its revenue substantially from control system and building intelligence businesses. The following table sets forth a breakdown of revenue by business segments for the years presented:

	<b>2020</b>		<b>2019</b>	
	<b><i>HK\$'000</i></b>	<b><i>%</i></b>	<b><i>HK\$'000</i></b>	<b><i>%</i></b>
Building intelligence	<b>42,426</b>	<b>57.9</b>	41,996	53.0
Control system	<b>30,817</b>	<b>42.1</b>	37,276	47.0
	<b><u>73,243</u></b>	<b><u>100.0</u></b>	<b><u>79,272</u></b>	<b><u>100.0</u></b>

The decrease in the Group's revenue from continuing operations for the year ended 31 March 2020 was mainly attributable to the decrease in sales of control system caused by the suspension of control system production in China in the first quarter of 2020 due to COVID-19 epidemic.

### ***Cost of sales***

Cost of sales of the Group consists of costs of raw materials, labour costs, manufacturing overheads and amortization charge of intangible assets. It decreased by approximately HK\$2.2 million or 4.5% from approximately HK\$48.4 million for FY2019 to approximately HK\$46.2 million for FY2020, which is in line with the decrease in sales for the year.

### ***Gross profit and gross profit margin***

The Group's gross profit from continuing operations for FY2020 was approximately HK\$27.1 million, representing a decrease of approximately HK\$3.8 million or 12.3% from approximately HK\$30.9 million for FY2019, which is in line with the decrease in sales for the year. The gross profit margin was maintained at a stable level of 37.0% (2019: 38.9%) for FY2020.

### ***Administrative and other operating expenses***

The administrative and other operating expenses of the Group from continuing operations mainly represent the staff costs, depreciation and amortization of property, plant and equipment and intangible assets and legal and professional fees. The expenses decreased by approximately HK\$10.9 million or 20.8% from approximately HK\$52.5 million for FY2019 to approximately HK\$41.6 million for FY2020, mainly attributable to the adoption of stricter control over administrative and operating expenses by the management during the year.

### ***Research and development expenditure***

The research and development expenditure of the Group from continuing operations increased by approximately HK\$9.2 million or 1.1 times from approximately HK\$8.7 million for FY2019 to approximately HK\$17.9 million for FY2020. Increased expenditure incurred during the year was mainly for the purposes of customer relationship management and network management system and related technical support services.

### ***Reversal/(allowance) of expected credit loss, net***

During the year ended 31 March 2020, the Group recorded a net reversal of expected credit loss of HK\$2.4 million for its continuing operations in relation to its trade receivables and loan and other receivables, as compared to a net allowance of HK\$5.8 million for FY2019. As at 31 March 2020, the Group's trade receivables amounted to HK\$52.1 million (31 March 2019: HK\$141.4 million) and the loan and other receivables amounted to HK\$64.1 million (31 March 2019: HK\$70.7 million), of which an amount of HK\$16.0 million (31 March 2019: HK\$93.5 million) and HK\$2.8 million (31 March 2019: HK\$ Nil) were considered impaired for each of the trade receivables and the loan and other receivables respectively based on an expected credit loss model. For the purpose of assessment of expected credit loss, expected loss rates were estimated based on historical observed default rates over the expected life of the debtors and were adjusted for forward looking information that was available without undue costs or effort.

### ***Finance costs***

The finance costs of the Group from continuing operations was approximately HK\$6.4 million for the year ended 31 March 2020, mainly representing interest expense on bank and other borrowings. The decrease in finance costs of approximately HK\$2.0 million or 23.8% from approximately HK\$8.4 million for the year ended 31 March 2019 was due to the decrease in average balance of bank and other borrowings of the Group in FY2020.

### ***Profit/loss from discontinued operations***

In FY2019, the Group discontinued its Synertone 1 satellite communication business (the “**Satellite Business**”) in November 2018 through disposals of Vastsuccess and Synertone Satellite. The profit from the Group’s Satellite Business up to the date of disposal completion amounted to HK\$338.0 million was recorded and classified as profit from discontinued operation of the Group for FY2019.

In FY2020, the Group discontinued its communication technology business (the “**Technology Business**”) in August 2019 through disposals of SCT and Thrive United. The loss from the Group’s Technology Business up to the date of disposal completion amounted to HK\$5.3 million together with the corresponding loss from the Technology Business for FY2019 amounted to HK\$72.1 million were recorded and classified as loss from discontinued operation of the Group for FY2020 and FY2019 respectively.

As compared to the loss recorded from discontinued operations of the Group for FY2020 of HK\$5.3 million, the significant total profit from discontinued operation of the Group for FY2019 amounted to HK\$265.9 million was recorded mainly due to an one-off gain from the disposal of the Satellite Business on derecognition of finance leases payable of approximately HK\$372.4 million (which is non-cash in nature) in relation to the bandwidth resources fees for the remaining service years as a result of the early termination of the finance lease arrangement in connection with the exclusive right to use Synertone 1 satellite bandwidth.

### ***Profit/loss for the year***

The Group recorded a loss attributable to owners of the Company of approximately HK\$38.7 million for FY2020 as compared to a profit attributable to owners of the Company for FY2019 of approximately HK\$208.7 million mainly due to an one-off gain of HK\$372.4 million on derecognition of finance leases payable for the discontinued Satellite Business was recognized in FY2019 but not for FY2020.

### ***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 2020, the issued share capital of the Company was approximately HK\$258.1 million, comprising 1,032,363,200 shares (the “**Shares**”) of the Company of nominal value of HK\$0.25 each (31 March 2019: 4,301,816,000 shares of HK\$0.05 each).

On 22 September 2014, the Company issued 660,000,000 warrants to CITIC Capital Management Limited at the issue price of HK\$0.01 per warrant (restated to 196,666,667 warrants following share consolidation on 24 March 2016 and rights issue completed on 28 April 2016). Each warrant carries the right to subscribe for one warrant share at the subscription price of HK\$1.98 (subject to adjustment). Such warrants can be exercised at any time during the exercise period of five (5) years commencing from the date of issue. During the year ended 31 March 2020, no warrants were exercised and all the outstanding warrants were lapsed during the current financial year on 22 September 2019. No warrants were outstanding as at 31 March 2020.

On 14 January 2020, the Company entered into a subscription agreement (the “**Subscription Agreement**”) with Mr. Lam Siu Sun (“**Mr. Lam**”), pursuant to which Mr. Lam has conditionally agreed to subscribe for 860,000,000 new shares of the Company of nominal value of HK\$0.05 each (the “**Subscription Shares**”) at the subscription price of HK\$0.1 per Subscription Share, representing a discount of approximately 17.36% to the closing price of HK\$0.121 per share as quoted on the Stock Exchange on 14 January 2020, being the date of the Subscription Agreement (the “**Subscription**”). The aggregate nominal value of the Subscription Shares is HK\$43,000,000. The Board considered that the Subscription was an appropriate means to provide additional funding for the Company to maintain the Group’s working capital requirement while broadening the capital base of the Company. Accordingly, the Directors were of the view that the Subscription was in the interests of the Company and the Shareholders as a whole.

The Subscription completed on 19 February 2020 and 860,000,000 Subscription Shares were issued and allotted to Mr. Lam at the subscription price of HK\$0.1 per Subscription Share. The net proceeds, after deduction of expenses, amounted to approximately HK\$85,900,000, representing a net price of approximately HK\$0.1 per Subscription Share, which were intended to be used as the Group’s general working capital and/or for future investment opportunities of the Group.

As at 31 March 2020, the net proceeds of approximately HK\$27.6 million have been utilized as intended use for the Group’s general working capital with details as follows:

<b>Description of use of proceeds</b>	<b>Amount</b> <i>(in HK\$ million)</i>
Staff salaries	4.7
Legal and professional fees	1.2
Research and development expenditure	12.6
Repayment of bank and other borrowings	2.3
Rental expenses, deposits and management fee	1.1
Other administrative and operating expenses	<u>5.7</u>
 Total	 <u><u>27.6</u></u>

As at 31 March 2020, the unused net proceeds from the Subscription was approximately HK\$58.3 million, which was proposed to be utilized according to the intentions previously disclosed as the Group’s general working capital and/or for any investment opportunities, which shall include the acquisition transactions of the Group which are further disclosed in the section headed “Events Subsequent to Year End” below, within the year 2020.

On 24 March 2020, the consolidation of the Company’s ordinary shares (the “**Share Consolidation**”) became effective whereby every five issued and unissued ordinary shares of par value of HK\$0.05 each in the share capital of the Company were consolidated into one consolidated share of par value of HK\$0.25 each. Details of the Share Consolidation are contained in the announcement of the Company dated 12 February 2020 and the circular of the Company dated 4 March 2020.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 31 March 2020 was approximately 1.6 (31 March 2019: approximately 1.1). Gearing ratio calculated by total borrowings (comprising bank and other borrowings, lease liabilities and finance leases payable) net of cash and cash equivalents, over total equity as at 31 March 2020 was 13% (31 March 2019: 68%).

### ***Bank and other borrowings***

As at 31 March 2020, the Group had outstanding bank and other borrowings of approximately HK\$66.1 million (31 March 2019: approximately HK\$104.2 million).

### ***Pledge of assets***

As at 31 March 2020, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK\$40.6 million (31 March 2019: approximately HK\$47.1 million) pledged against bank borrowings raised by the Group and finance leases payable.

### ***Contingent liabilities***

As at 31 March 2020, the Group had no material contingent liabilities.

### ***Major acquisition and disposal***

On 23 August 2019, Radio World Holding Limited, a wholly-owned subsidiary of the Company, as vendor entered into two shares transfer agreements with Allied Link Technology Limited, as purchaser, pursuant to which Radio World Holding Limited agreed to sell and Allied Link Technology Limited agreed to purchase the entire issued share capital of each of SCT and Thrive United, both were the then indirect wholly-owned subsidiaries of the Company, at considerations of HK\$7,700,000 and US\$1 respectively (both together known as the “**Disposals**”).

SCT and its subsidiary in China were principally engaged in research and development, production and sales of specialised communication systems, while Thrive United, together with its subsidiaries, were principally engaged in research and development and sale of safe communication technology and systems. In view of the negative outlook and diminishing market demand for the specialised communication systems and products, the Board considered that the Disposals were in the best interests of the Group and the Shareholders as a whole. The completion of the Disposals took place on 23 August 2019 upon which SCT and Thrive United ceased to be subsidiaries of the Company and the Group has fully disposed of its communication technology business. A loss arising from the Disposals of HK\$2.5 million was recorded by the Group for FY2020 and the net proceeds from the Disposals of approximately HK\$7,650,000 were used as the Group’s general working capital during the year.

On 27 September 2019, the Group further acquired through an indirect 85%-owned subsidiary of the Company a 51% equity interest in 杭州奥邁智能科技有限公司 (literally translated as Hangzhou Aomai Intelligent Technology Limited) (“**Hangzhou Aomai**”) for a cash consideration of HK\$450,000 (the “**Aomai Acquisition**”). Hangzhou Aomai is engaged in the sales of building intelligence products in China. Upon completion of the Aomai Acquisition, the Group’s effective equity interests in Hangzhou Aomai increased from 41.65% to 85% and thereafter Hangzhou Aomai became an indirect non-wholly owned subsidiary of the Company.

### ***Significant capital expenditure for the year***

Save as disclosed above, the Group has no significant capital expenditure commitments as at 31 March 2020.

### ***Risk of foreign exchange fluctuations***

Substantially all transactions of the Group are denominated in Renminbi (“**RMB**”), United States dollars and Hong Kong dollars and most of the bank deposits are denominated in RMB and HK\$ to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against US\$ and HK\$ during the 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 2020.

### ***Employee and remuneration policy***

As at 31 March 2020, the Group had 148 employees (31 March 2019: 159). For the year ended 31 March 2020, the staff costs of the Group from continuing operations amounted to approximately HK\$21.9 million, representing an increase of approximately HK\$4.8 million or 28.1% as compared to approximately HK\$17.1 million for the corresponding period last year, mainly due to the significant increase in research and development related staff costs incurred for development and expansion of the Group’s building intelligence business during the 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 Group also adopted a share option scheme and eligible participants of which may be granted the share options to subscribe for the shares of the Company. As at 31 March 2020, no share options were outstanding under the share option scheme.

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

## **EVENTS SUBSEQUENT TO YEAR END**

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

On 5 June 2020, the Company, as purchaser, entered into a sale and purchase agreement with Wylie Wei Ji Chak, as vendor, pursuant to which the Company agreed to acquire from Wylie Wei Ji Chak 20% equity interests in Iogo Workshop at a total consideration of HK\$56 million. Iogo Workshop, together with its subsidiaries, is principally engaged in the leasing and renting of charging stations for mobile devices and extended value-added services. The acquisition of 20% equity interests in Iogo Workshop was completed in June 2020 and Iogo Workshop is expected to become an associate of the Company.

Save as disclosed above, there were no other significant events subsequent to year end and up to the date of this announcement.

## **DIVIDEND**

The Directors do not recommend the payment of any dividend for the year ended 31 March 2020.

## **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 Friday, 28 August 2020 (“**2020 AGM**”), the register of members of the Company will be closed from Tuesday, 25 August 2020 to Friday, 28 August 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2020 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 Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 August 2020.



## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the year ended 31 March 2020.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considers that the Company was in compliance with all the applicable code provisions as set out in the CG Code during the year ended 31 March 2020 apart from code provision E.1.2 as disclosed below.

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. Mr. Wong Chit On, the then chairman of the Board, was not able to attend the annual general meeting held on 26 September 2019 (the "**2019 AGM**") due to another important business meeting. Mr. Han Weining, the executive Director and chief executive officer of the Company, was appointed as the chairman of the 2019 AGM to answer and address questions raised by the Shareholders at the 2019 AGM.

The Directors believed that Mr. Han Weining, as the chief executive officer of the Company and the executive Director, possessed sufficient knowledge on the Group's businesses and had the required leadership in maintaining an effective dialogue with Shareholders and addressing any issues or questions raised in the general meeting. Therefore, Mr. Han was considered suitable and appropriate to act as the chairman of the 2019 AGM in the absence of the chairman of the Board.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all Directors, all Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code during the year ended 31 March 2020.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference and revised from time to time to comply with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lam Ying Hung Andy (as committee chairman), Mr. Wang Chen and Ms. Li Mingqi. The principal duties of the Audit Committee are to review and monitor the Group’s financial reporting system, and risk management and internal control systems.

The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 March 2020 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.synertone.net](http://www.synertone.net)). The annual report of the Company for the year ended 31 March 2020 will be despatched to the Shareholders and published on the aforesaid websites in due course.

By order of the Board  
**Synertone Communication Corporation**  
**Han Weining**  
*Executive Director and Chief Executive Officer*

Hong Kong, 26 June 2020

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