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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 2018

The board (the "Board") of directors (the "Directors") of Synertone Communication Corporation (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2018 together with the comparative figures for the year ended 31 March 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*4*	**93,763**	144,677
Cost of sales		**(78,743)**	(116,594)
Gross profit		**15,020**	28,083
Other income	*5*	**13,595**	58,168
Other gains	*5*	**6,819**	1,463
Fair value change on derivative financial instruments		**–**	(95,235)
Selling and distribution expenses		**(15,204)**	(16,966)
Administrative and other operating expenses		**(76,515)**	(94,534)
Research and development expenditure	*6(c)*	**(69,401)**	(32,761)
Impairment loss of trade receivables	*6(c)*	**(16,650)**	(16,733)
Impairment loss of intangible assets	*6(c)*	**(262,559)**	–
Impairment loss of goodwill	*6(c)*	**(135,016)**	(15,693)
Loss from operations		**(539,911)**	(184,208)
Finance costs	*6(a)*	**(29,441)**	(25,005)
Share of results of an associate		**(1,013)**	(137)
Impairment loss of interests in an associate		**(374)**	–
Loss before taxation	*6*	**(570,739)**	(209,350)
Income tax	*7*	**21,287**	7,934
Loss for the year		**(549,452)**	(201,416)
Attributable to:			
Owners of the Company		**(545,125)**	(196,693)
Non-controlling interests		**(4,327)**	(4,723)
		(549,452)	(201,416)
Loss per share	*8*		
– Basic		**HK$(0.16)**	HK$(0.06)
– Diluted		**HK$(0.16)**	HK$(0.06)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(549,452)**	(201,416)
Other comprehensive income (loss) for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	**37,824**	(34,308)
Other comprehensive income (loss) for the year, net of tax	**37,824**	(34,308)
Total comprehensive loss for the year (net of tax)	**(511,628)**	(235,724)
Attributable to:		
Owners of the Company	**(508,789)**	(225,865)
Non-controlling interest	**(2,839)**	(9,859)
	(511,628)	(235,724)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**99,867**	98,703
Prepaid lease payments		**9,098**	8,405
Intangible assets		**25,131**	314,359
Goodwill		**70,234**	185,340
Interests in an associate		**1,370**	2,538
Available-for-sale investments		**3,900**	3,900
Prepayment for acquisition of property, plant and equipment	*9*	**8,141**	8,062
		217,741	621,307
Current assets			
Inventories		**48,518**	35,867
Trade and other receivables	*9*	**285,739**	282,359
Prepaid lease payments		**215**	194
Tax recoverable		**–**	90
Cash and cash equivalents		**6,877**	17,991
		341,349	336,501
Current liabilities			
Trade and other payables	*10*	**100,851**	75,122
Bank and other borrowings		**171,655**	165,240
Finance leases payables		**190,112**	131,884
Amount due to a director		**1**	1
Current taxation		**1,720**	9,202
		464,339	381,449
Net current liabilities		**(122,990)**	(44,948)
Total assets less current liabilities		**94,751**	576,359

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Convertible bonds payable	**18,467**	–
Finance leases payables	**223,419**	274,190
Deferred tax liabilities	**7,234**	21,293
	249,120	295,483
Net (liabilities) assets	**(154,369)**	280,876
EQUITY		
Share capital	**167,440**	167,440
Reserves	**(333,530)**	98,876
Equity attributable to owners of the Company	**(166,090)**	266,316
Non-controlling interests	**11,721**	14,560
Total equity	**(154,369)**	280,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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, 10/F, Tsim Sha Tsui Centre, 66 Mody Road, Kowloon, Hong Kong respectively.

On 18 April 2012, the shares of the Company (the "Shares") 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, research and development, manufacture and sales of specialised communication systems, equipment and system technologies, (ii) provision of Synertone 1 satellite bandwidth capacity and communication services application, (iii) design, development and sale of automation control systems for industrial use, and (iv) design, research and development, manufacture and sales of intelligent building systems including video intercom and surveillance systems for buildings.

Basis of preparation

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 ("HKICPA"), 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").

The Group incurred a loss attributable to owners of the Company of approximately HK$545,125,000 during the year ended 31 March 2018, and, as of that date, the Group's liabilities exceeded its assets by approximately HK$154,369,000. The existence of these uncertainties cost significant doubt on the Group's ability to continue as going concern. In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern:

(a) In May 2018, the Company completed the allotment and issue of 653,016,000 new ordinary shares at the subscription price of HK$0.08 per share to an independent third party. The gross proceeds of HK$52,241,000 arising from the subscription will be applied for general working capital and/or further investments of the Group as and when the opportunities arise.

(b) In June 2018, the Company has further issued convertible bonds in aggregate principal amount of HK$28,000,000 to a subscriber pursuant to the terms of the subscription agreement signed on 23 May 2017.

(c) Under the finance lease of the exclusive right to use Synertone 1 satellite bandwidth, the Group incurs liabilities to pay the lessor amounts calculated according to the relevant agreements (the "Agreements") in the carrying value of HK$410,935,000 included in finance lease payables at the end of the reporting period, comprising HK$188,903,000 recorded under current liabilities and HK$222,032,000 recorded under non-current liabilities. Due to the early termination of the Agreements during the year ended 31 March 2018, the Group was not in the position to pay the outstanding bandwidth resources fee from the fifth service year (commencing from October 2017) onwards, and therefore the carrying value of finance lease payables of HK$139,854,000 recorded under current liabilities was under dispute and negotiation with the lessor.

(d) The Group is able to generate sufficient operating cash flows to meet its current and future obligations.

Having taken into account the above, the Directors consider that the Group will have sufficient working capital to enable the Group to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the 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 these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

3. SEGMENT REPORTING

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

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.

Communication Technology:	Provision of specialised communication systems, equipment and system technologies, including digital trunking system, Very Small Aperture Terminal ("VSAT") satellite system and operation integrated system
Synertone 1 Satellite Communication:	Provision of satellite bandwidth capacity and communication services application.
Building Intelligence and Smart Home:	Provision of (i) video intercom system and security alarm solutions for residential complexes; and (ii) smart home devices systems for new and existing households.
Industrial Control System:	Provision of (i) automation hardware and software products and information system platform, as well as (ii) the industrial and monitoring and scheduling management system solutions for municipal utilities industry.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between 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 available-for-sale investments and other 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, and bank and other borrowings and finance lease payables managed directly by the segments with the exception of convertible bonds payable and other 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 profit is adjusted earnings before interest and taxes ("Adjusted EBIT"). To arrive at adjusted earnings before interest and taxes, the Group's profits are further adjusted for interest income, impairment loss of intangible assets, goodwill and interests in an associate, change in fair value of derivative financial instruments, 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 prepaid lease payments and intangible assets, depreciation of property, plant and equipment, write down of inventories, reversal of write down of inventories, recovery of impaired trade receivables, impairment loss of intangible assets, goodwill and trade receivables, research and development expenditure, and additions to non-current segment assets used by the segments in their operations.

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 2018 and 2017 is as follows:

	2018					
	Communication technology *HK$'000*	**Synertone 1 satellite communication** *HK$'000*	**Building intelligence and smart home** *HK$'000*	**Industrial control system** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Revenue from external customers	**18,554**	**8,992**	**40,382**	**25,835**	**–**	**93,763**
Inter-segment revenue	**351**	**–**	**7,933**	**36**	**–**	**8,320**
Reportable segment revenue	**18,905**	**8,992**	**48,315**	**25,871**	**–**	**102,083**
Reportable segment loss (Adjusted EBIT)	**(81,557)**	**(15,902)**	**(25,106)**	**(2,638)**	**–**	**(125,203)**
Interest income	**7**	**3**	**–**	**2**	**1,000**	**1,012**
Finance costs	**–**	**(18,144)**	**(4,558)**	**(33)**	**(6,706)**	**(29,441)**
Amortisation of prepaid lease payments	**–**	**–**	**(204)**	**–**	**–**	**(204)**
Amortisation of intangible assets	**(7,166)**	**(19,363)**	**(7,969)**	**(1,186)**	**–**	**(35,684)**
Depreciation of property, plant and equipment	**(4,840)**	**(1,159)**	**(4,903)**	**(38)**	**(1,342)**	**(12,282)**
Write down of inventories	**(1,621)**	**–**	**–**	**–**	**–**	**(1,621)**
Recovery of impaired trade receivables	**–**	**406**	**3,144**	**930**	**–**	**4,480**
Impairment loss of:						
– Goodwill	**(2,113)**	**–**	**(6,098)**	**(126,805)**	**–**	**(135,016)**
– Intangible assets	**(47,403)**	**(215,156)**	**–**	**–**	**–**	**(262,559)**
– Trade receivables	**(9,664)**	**–**	**(6,224)**	**(762)**	**–**	**(16,650)**
Research and development expenditure	**(59,331)**	**–**	**(10,070)**	**–**	**–**	**(69.401)**
Reportable segment assets	**128,235**	**66,913**	**161,209**	**100,224**	**102,509**	**559,090**
Additions to non-current segment assets						
– Property, plant and equipment	**4,296**	**1,698**	**268**	**27**	**7**	**6,296**
Reportable segment liabilities	**19,574**	**421,413**	**139,238**	**11,529**	**121,705**	**713,459**

	2017					
	Communication technology *HK$'000*	Synertone 1 satellite communication *HK$'000*	Building intelligence and smart home *HK$'000*	Industrial control system *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers	11,483	16,378	89,132	27,684	–	144,677
Inter-segment revenue	359	–	7,951	–	–	8,310
Reportable segment revenue	11,842	16,378	97,083	27,684	–	152,987
Reportable segment profit/(loss) (Adjusted EBIT)	(4,380)	(45,928)	4,340	204	–	(45,764)
Interest income	25	1	5	2	848	881
Finance costs	(1,130)	(18,955)	(4,624)	(13)	(283)	(25,005)
Amortisation of prepaid lease payments	–	–	(200)	–	–	(200)
Amortisation of intangible assets	(8,301)	(38,584)	(7,874)	(1,167)	–	(55,926)
Depreciation of property, plant and equipment	(2,616)	(1,622)	(5,594)	(74)	(1,459)	(11,365)
Reversal of write down of inventories	2,707	–	–	–	–	2,707
Recovery of impaired trade receivables	–	–	348	755	–	1,103
Impairment loss of:						
– Goodwill	–	–	(12,360)	(3,333)	–	(15,693)
– Trade receivables	(8,159)	–	(8,574)	–	–	(16,733)
Research and development expenditure	(17,014)	(2,486)	(13,261)	–	–	(32,761)
Reportable segment assets	270,498	268,517	184,768	200,642	33,383	957,808
Additions to non-current segment assets						
– Property, plant and equipment	33,443	–	1,450	38	135	35,066
– Intangible assets	–	–	64	–	–	64
	33,443	–	1,514	38	135	35,130
Reportable segment liabilities	19,983	414,285	123,761	9,771	109,132	676,932

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

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**102,083**	152,987
Elimination of inter-segment revenue	**(8,320)**	(8,310)
Consolidated revenue	**93,763**	144,677
Loss		
Reportable segment loss	**(125,203)**	(45,764)
Elimination of inter-segment profits	**–**	–
Reportable segment loss derived from Group's external customers	**(125,203)**	(45,764)
Loss on fair value change on derivative financial instruments	**–**	(95,235)
Impairment loss on goodwill	**(135,016)**	(15,693)
Impairment loss on intangible assets	**(262,559)**	–
Interest income	**1,012**	881
Finance costs	**(29,441)**	(25,005)
Share of results of an associate	**(1,013)**	(137)
Impairment loss of interests in an associate	**(374)**	–
Unallocated corporate expenses	**(18,145)**	(28,397)
Consolidated loss before taxation	**(570,739)**	(209,350)
Assets		
Reportable segment assets	**456,581**	924,425
Elimination of inter-segment receivables	**–**	–
	456,581	924,425
Available-for-sale investments	**3,900**	3,900
Unallocated corporate assets	**98,609**	29,483
Consolidated total assets	**559,090**	957,808

	2018	2017
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**591,754**	567,800
Elimination of inter-segment payables	**–**	–
	591,754	567,800
Amount due to a director	**1**	1
Convertible bonds payable	**18,467**	–
Deferred tax liabilities	**7,234**	21,293
Unallocated corporate liabilities	**96,003**	87,838
Consolidated total liabilities	**713,459**	676,932

(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, prepaid lease payments, intangible assets, goodwill, interests in an associate and prepayment for acquisition of property, plant and equipment. 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, prepaid lease payments and prepayment for acquisition of property, plant and equipment 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 operator 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**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**–**	–	**3,361**	4,696
People's Republic of China ("PRC")	**86,816**	143,410	**210,480**	612,711
Overseas	**6,947**	1,267	**–**	–
	93,763	144,677	**213,841**	617,407

(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:

	2018	2017
	HK$'000	*HK$'000*
Communication technology		
Customer A	**17,152**	N/A *(note)*

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

4. REVENUE

Revenue represents the sales value of goods supplied to customers which excludes value-added and business taxes, and is after deduction of any goods returns and trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Specialised communication systems and technologies	**18,554**	11,483
Synertone 1 satellite system	**8,992**	16,378
Building intelligence and smart home	**40,382**	89,132
Industrial control system	**25,835**	27,684
	93,763	144,677

5. OTHER INCOME AND OTHER GAINS

	2018	2017
	HK$'000	*HK$'000*
Other income		
Bank interest income from bank deposits *(note a)*	**12**	34
Loan interest income *(note a)*	**1,000**	847
Government grants *(note b)*	**2,448**	12,214
Recovery of bad debts written off	**–**	9,297
Recovery of impaired trade receivables	**4,480**	1,103
Reversal of consideration payable *(note c)*	**–**	27,000
Value-added taxes refund *(note d)*	**3,039**	6,988
Sundry income	**2,616**	685
	13,595	58,168
Other gains		
Net exchange gain	**6,334**	1,452
Net gain on disposal of property, plant and equipment	**485**	11
	6,819	1,463
	20,414	59,631

Notes:

(a) Interest income from bank deposits and loan receivable represented the total interest income on financial assets not at fair value through profit or loss.

(b) 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".

(c) During the year ended 31 March 2017, the Group entered into a supplemental agreement with the contracting parties to the conditional sale and purchase agreement dated 26 September 2014 (the "Thrive United S&P Agreement") regarding the sale and purchase of the entire issued share capital of Thrive United Holdings Limited ("Thrive United"), pursuant to which the Group's outstanding consideration payable amounting to HK$27,000,000 for the acquisition of the entire equity interest of Thrive United had been waived as its former shareholder could not complete certain patent registration of safe communication technologies developed by the subsidiaries of Thrive United after a prolonged period of time, where the completion of such patent registration is required in accordance with the Thrive United S&P Agreement before the Group is liable to pay the outstanding consideration amount.

(d) 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

	2018	2017
	HK$'000	*HK$'000*
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on bank and other borrowings	**9,203**	5,852
Interest expense on convertible bonds	**1,948**	–
Finance charges on finance lease payables	**18,290**	19,153
	29,441	25,005

(b) Staff costs (including Directors' emoluments)

	2018	2017
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**39,190**	47,530
Contributions to defined contribution retirement plans	**4,901**	5,320
Equity-settled share-based payment expenses	**841**	2,711
	44,932	55,561

(c) Other items

	2018	2017
	HK$'000	*HK$'000*
Auditor's remuneration	**1,000**	1,000
Cost of inventories	**46,922**	62,869
Amortisation of prepaid lease payments	**204**	200
Amortisation of intangible assets	**35,684**	55,926
Depreciation of property, plant and equipment	**12,282**	11,365
Impairment loss of trade receivables	**16,650**	16,733
Impairment loss of intangible assets *(note i)*	**262,559**	–
Impairment loss of goodwill *(note i)*	**135,016**	15,693
Operating lease charges in respect of leased property	**6,512**	6,215
Research and development expenditure *(note ii)*	**69,401**	32,761

Notes:

(i) Based on management's assessment and by reference to the value-in-use calculations performed by an independent appraisal firm where applicable, the Group recognised impairment losses of goodwill and intangible assets during the year ended 31 March 2018 which comprise: (1) intangible asset of HK$215,156,000 (2017: nil) in relation to the exclusive right to use Synertone 1 satellite bandwidth; (2) goodwill of HK$2,113,000 (2017: nil) and intangible asset of HK$47,403,000 (2017: nil) attributable to safe communication technologies cash generating unit; (3) goodwill of HK$126,805,000 (2017: HK$3,333,000) attributable to industrial control system cash generating unit; and (4) goodwill of HK$6,098,000 (2017: HK$12,360,000) attributable to building intelligence and smart home cash generating unit.

Intangible asset in respect of the right to use Synertone 1 satellite bandwidth was impaired during the year ended 31 March 2018 as the Group considered that the anticipated cash flows to be generated from the future use of the asset would be uncertain due to the early termination of the Agreements in the current year.

Goodwill and intangible assets attributable to safe communication technologies cash generating unit were impaired as revenue from safe communication technologies used in digital trunking system had a substantial decline during the year ended 31 March 2018 mainly due to the change in customer demand. It is expected that future sales performance will follow the actual situation during the year.

Goodwill attributable to industrial control system cash generating unit was impaired as the early termination of the Group's exclusive right to use Synertone 1 satellite bandwidth resources would reduce the anticipated cash flows from the future operating synergies through the combination of the automation control systems provided by the MOX Group (as defined below) with the support of Synertone 1 satellite system.

Goodwill attributable to building intelligence and smart home cash generating unit was impaired as there was change in customer demands mainly due to fierce market competition that resulted in a decline of actual sales during the current year and reduced anticipated cash flows from the future operating synergies from exploiting the customer base of the Sense Field Group (as defined below) for the Group's existing communication business.

(ii) Research and development expenditure for the year ended 31 March 2018 included approximately HK$7,656,000 (2017: HK$8,883,000) 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

	2018	2017
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax ("EIT") *(note (d))*	**194**	1,345
Over-provision in respect of prior years		
PRC EIT	**(5,379)**	–
Deferred tax		
Origination and reversal of temporary differences	**(16,102)**	(9,279)
	(21,287)	(7,934)

Notes:

(a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

(b) Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the BVI subsidiaries of the Group are not subject to any income tax in the BVI.

(c) No provision has been made for Hong Kong Profits Tax as the Group does not earn any income subject to Hong Kong Profits Tax during the year.

(d) One of the PRC subsidiaries of the Group, Synertone Communication Technology Limited ("Synertone Technology"), being the foreign invested "encouraged hi-tech enterprise" was entitled to a preferential EIT rate of 15%. The period of grant of preferential EIT rate is valid for three years starting from 19 June 2015.

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 25% (2017: 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 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.

8. LOSS PER SHARE

(a) Basic loss per Share

The calculation of basic loss per Share is based on the loss attributable to owners of the Company of HK$545,125,000 (2017: HK$196,693,000) and the weighted average number of 3,348,800,000 (2017: 3,246,307,000) Shares in issue during the year.

(b) Diluted loss per share

The calculation of diluted loss per Share is based on the following:

	2018	2017
	HK$'000	*HK$'000*
Loss attributable to owners of the Company for the purpose of diluted loss per Share	**(545,125)**	(196,693)

	2018	2017
	'000	*'000*
Weighted average number of ordinary Shares for the purpose of basic loss per Share	**3,348,800**	3,246,307
Effect of deemed issue of Shares from exercise of warrants	**–**	–
Effect of deemed issue of Shares under share option scheme	**–**	–
Effect of deemed issue of Shares from conversion of convertible bonds	**–**	–
Weighted average number of ordinary Shares for the purpose of diluted loss per Share	**3,348,800**	3,246,307

For the years ended 31 March 2018 and 2017, the computation of diluted loss per Share did not assume the exercise of the Company's outstanding share options and warrants as the exercise prices of such share options and warrants were higher than the average market price per Share.

For the year ended 31 March 2018, the computation of diluted loss per Share did not assume the conversion of the Company's outstanding convertible bonds issued during the year as the conversion of convertible bonds to ordinary Shares would have anti-dilutive effect.

9. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**196,416**	201,224
Less: Allowance for doubtful debts	**(90,234)**	(71,178)
	106,182	130,046
Bills receivable	**1,324**	3,216
Loan receivable	**20,000**	20,000
Other receivables	**46,806**	57,859
Due from non-controlling shareholders of a subsidiary	**72,061**	–
Advance to suppliers	**21,648**	48,750
Prepaid value–added and other taxes	**8,141**	8,100
Prepayment for acquisition of property, plant and equipment	**8,141**	8,062
Deposits and prepayments	**9,577**	14,388
	293,880	290,421
Reconciliation to the consolidated statement of financial position:		
Non-current	**8,141**	8,062
Current	**285,739**	282,359
	293,880	290,421

The following is an aging analysis of trade receivables, presented based on invoice date:

	2018	2017
	HK$'000	*HK$'000*
0–60 days	**29,574**	17,801
61–90 days	**3,162**	8,996
91–180 days	**8,210**	31,292
181–365 days	**10,539**	6,646
Over 365 days	**144,931**	136,489
	196,416	201,224
Less: Accumulated impairment of trade receivables	**(90,234)**	(71,178)
	106,182	130,046

10. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**37,505**	34,017
Bill payables	**6,365**	6,616
Accrued salaries	**8,147**	4,959
Accrued expenses and other payables	**37,875**	19,899
Financial liabilities measured at amortised cost	**89,892**	65,491
Deferred government grant	**2,496**	2,253
Deposits received from customers	**7,331**	3,010
Other tax payables	**1,132**	4,368
	100,851	75,122

The following is an aging analysis of trade payables presented based on invoice date:

	2018	2017
	HK$'000	*HK$'000*
0–60 days	**14,229**	6,304
61–90 days	**948**	4,011
91–180 days	**1,610**	3,606
181–365 days	**5,073**	4,246
Over 365 days	**15,645**	15,850
	37,505	34,017

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

11. DIVIDENDS

The Directors do not recommend the payment of any dividends in respect of the years ended 31 March 2018 and 2017.

EXTRACT OF THE AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 March 2018:

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the consolidated financial statements, which indicates that the Group incurred a loss attributable to owners of the Company of approximately HK$545,125,000 during the year ended 31 March 2018 and, as of that date, the Group's liabilities exceeded its assets by approximately HK$154,369,000. As stated in Note 3, these events and 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

The principal businesses of the Group include provision of (i) communication technology systems and solutions, (ii) Synertone 1 satellite communication resources; (iii) industrial control system; and (iv) building intelligence and smart home products.

Communication Technology

The Group manufactures and assembles the core components of the digital trunking system and VSAT satellite system at its production facilities in Shenzhen. Customers of the Group's products include system integrators, distributors and end-users. During the year under review, the Group focused on the development of a wide range of VSAT satellite system products to meet the application requirements of the upgraded Synertone 1 satellite system. Despite trial cases have been conducted in selected applications, the Group needs to explore new business strategies, or even reconsider the continuation of this business, in response to the potential change of cooperation model of the Group's Synertone 1 satellite bandwidth resources.

Synertone 1 Satellite Communication

The Group provides high quality satellite broadband services in the PRC through licensed telecommunication partners. The Synertone 1 satellite system provides customers with high throughput satellite (HTS) resources over the PRC including the coastal areas. The Group's infrastructure can provide up to 200Mbps high-speed wireless broadband connectivity to high-speed rail, ferries and shipping, road transportation and aircraft, as well as wireless broadband connectivity in remote areas with no electricity.

The Group has commenced the upgrade for Synertone 1 satellite's gateway system in phases since November 2015. The upgrade can increase the total bandwidth of the Synertone 1 satellite system from 12Gbps to around 20Gbps as well as the uplink and downlink transmission limits. The first phase of upgrade is substantially finished in the fourth quarter of 2016, and by then one third of the total bandwidth and the network management system (NMS) have been upgraded. With the upgraded bandwidth, the Group can enter market fields which they could not enter before, such as 4G backhaul, connectivity for high speed rail and etc. In phases 2 and 3, the Group will upgrade the rest of the bandwidth, build a comprehensive satellite communication network and evolve the business model from B2B to B2C business.

Due to changes of market conditions, in particular, the successful launch of China's first self-developed HTS in April 2017, the management of the Group initiated discussions with the vendor (the "Vendor") of the exclusive right that the Group is using to provide the Synertone 1 satellite bandwidth capacity to service providers and end user customers in the PRC on a detailed plan as to how the parties shall perform the Agreements in the future. It is the Group's position to exercise its right to modify the existing cooperation model under the definitive agreement signed in March 2013 from the fifth service year onwards (which commences in October 2017), and in the meantime, no payment for the bandwidth resources fees for the fifth service year is required according to terms of the Agreements.

However, the Vendor took a different view and disputed that, inter alia, the bandwidth resources fees for the fifth service year should remain payable. In December 2017, the Vendor issued a notice of termination (the "Notice") to the Group according to which: (i) the Vendor has terminated the Agreements due to the failure of the Group to, inter alia, pay the required bandwidth resources fees under the Agreements to the Vendor and (ii) the Vendor will maintain the provision of Synertone 1 satellite bandwidth resources to the Group subject to certain conditions.

Subsequent to the issue of the Notice, the Group had further discussions with the Vendor to negotiate an amicable resolution. Whilst it is common ground of the Group and the Vendor that the Agreements have already been terminated, no formal agreement was reached as to any modification of the existing cooperation model up to the date of this announcement. For further details, please refer to the Company's announcement dated 22 December 2017. In light of the above, the Group expects that revenue from the Synertone 1 satellite system business will remain at a relatively low level before a new cooperation model is established between the Group and the Vendor.

On the other hand, the Group is developing series of innovative network element products which provide customers with multi-channel network access such as satellite network, 3G/4G public network, trunking private network and Wi-Fi. Data transmission rate of these network element products will be over 150Mbps, which can support high quality voice, data, video, image, positioning and other multimedia applications. These network element products are easy to deploy and use that could meet communication service requirements in aviation, railway, maritime, emergency, field survey and oil exploration, etc.

Industrial Control System

Following the acquisition of entire issued share capital of MOX Products Pty Limited ("MOX") in July 2015, the Group entered into the industrial control business to provide customers with automation control systems for industrial use. 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. MOX and its subsidiaries (the "MOX Group") have established a solid customer base ranging from large listed corporations to governmental entities, municipal utilities (fresh water, waste water, gas and city lights) as well as power generation plants.

Building Intelligence and Smart Home Products

Building intelligence and smart home 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.

Following the further acquisition of 36% equity interest in Sense Field Group Limited ("Sense Field", together with its subsidiaries, "Sense Field Group") on 30 March 2017, the Group holds 85% equity interest in Sense Field. The Sense Field Group is principally engaged in the design, development and manufacturing various building intelligence and smart home 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. One of the Sense Field Group companies has been accredited high technology enterprise status with continuing new products and software developments.

Most of the customers of the Sense Field Group are either property developers or building systems' integrators. These customers include, inter alia, Greentown China Holdings Limited, Longfor Properties Company Limited and China Resources Land Limited. 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, with a total installation base of around 2,000 residential complexes and 1,000 apartments for each complex.

During the year under review, our "MOX" brand video intercom and surveillance system products faced fierce competition. Some property developers adopted low end products from other local manufacturers with lower selling price instead and therefore placed less orders from the Group. In order to consolidate its market share, the Group has been expanding the sales network into regions other than the Yangtze River Delta.

Leveraging the large installation base and advanced technology, the Sense Field Group is also 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.

Financial review

Turnover

The Group recorded a revenue of approximately HK$93.8 million for the year ended 31 March 2018, representing a decrease of approximately HK$50.9 million or 35.2% as compared to approximately HK$144.7 million for the year ended 31 March 2017.

During the year ended 31 March 2018, the Group derived its revenue substantially from industrial control system and building intelligence and smart home business. The following table sets forth a breakdown of revenue by product category for the years presented:

	2018		2017	
	HK$'000	*%*	*HK$'000*	*%*
Specialised communication systems and technologies	**18,554**	**19.8**	11,483	7.9
Synertone 1 satellite system	**8,992**	**9.6**	16,378	11.3
Building intelligence and smart home	**40,382**	**43.1**	89,132	61.6
Industrial control system	**25,835**	**27.5**	27,684	19.2
	93,763	**100.0**	144,677	100.0

The decrease in the Group's revenue for the year ended 31 March 2018 was mainly attributable to the decrease in sales generated by the building intelligence and smart home business of approximately HK$48.7 million or 54.7% as compared to the corresponding period in preceding year as explained above.

Cost of sales

Cost of sales of the Group comprises costs of raw materials, labour costs, manufacturing overheads and amortisation charge of intangible assets. It decreased by approximately HK$37.9 million or 32.5% from approximately HK$116.6 million for the year ended 31 March 2017 to approximately HK$78.7 million for the year ended 31 March 2018.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 March 2018 was approximately HK$15.0 million, as compared with approximately HK$28.1 million for the year ended 31 March 2017. There was a decrease in the overall gross profit margin from approximately 19.4% to 16.0%, mainly as a result of the decrease in gross profit contributed by the building intelligence and smart home business in line with the decrease in its contribution to the Group's revenue.

Other income

Other income of the Group amounted to approximately HK$13.6 million for the year ended 31 March 2018, representing a decrease of approximately HK$44.6 million or 76.6% from approximately HK$58.2 million for the year ended 31 March 2017. The decrease was mainly due to the absence of reversal of consideration payable under the Thrive United S&P Agreement set out in Note 5(c) to the consolidated financial statements above, and certain government grants and tax subsidies received by the Group in prior year that were non-recurring in nature.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately HK$1.8 million or 10.6% from approximately HK$17.0 million for the year ended 31 March 2017 to approximately HK$15.2 million for the year ended 31 March 2018.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK$18.0 million or 19.0% from approximately HK$94.5 million for the year ended 31 March 2017 to approximately HK$76.5 million for the year ended 31 March 2018, mainly attributable to reduced staff costs, legal and professional fees and travel expenses as a result of stringent cost control measures.

Research and development expenditure

The research and development expenditure of the Group increased by approximately HK$36.6 million or 111.6% from approximately HK$32.8 million for the year ended 31 March 2017 to approximately HK$69.4 million for the year ended 31 March 2018.

Impairment loss of trade receivables

During the year ended 31 March 2018, the Group generally grant a credit period of 30 to 180 days (2017: 30 to 180 days) to its trade customers. A longer credit period of 181 to 365 days (2017: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.

As at 31 March 2018, trade receivables amounting to approximately HK$90.2 million (2017: approximately HK$71.2 million) were individually determined to be impaired which were outstanding beyond its credit period and without any repayment subsequent to the year end date. Impairment loss of approximately HK$16.7 million (2017: approximately HK$16.7 million) was recognised to the consolidated statement of profit or loss for the year ended 31 March 2018. The Group also recovered impaired trade receivables of approximately HK$4.5 million (2017: approximately HK$1.1 million) which was recognised as other income in the consolidated statement of profit or loss for the year ended 31 March 2018. The Directors will take further possible actions to follow up those impaired receivables.

Impairment loss of goodwill and intangible assets

During the year ended 31 March 2018, goodwill amounting to approximately HK$135.0 million (2017: approximately HK$15.7 million) were determined to be impaired, in which approximately HK$2.1 million (2017: nil), HK$126.8 million (2017: approximately HK$3.3 million) and HK$6.1 million (2017: approximately HK$12.4 million) were attributable to safe communication technologies cash generating unit, industrial control system cash generating unit and building intelligence and smart home cash generating unit, respectively. In addition, intangible assets of approximately HK$262.6 million (2017: nil) were determined to be impaired, in which approximately HK$47.4 million (2017: nil) was attributable to the safe communication technologies cash generating unit and approximately HK$215.2 million (2017: nil) was attributable to the Group's exclusive right to use the Synertone 1 satellite bandwidth resources. The recoverable amount of the cash generating units 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.

The Directors considered that the goodwill and intangible assets attributable to the safe communication technologies cash generating unit were impaired as revenue from safe communication technologies used in digital trunking system had a substantial decline during the year ended 31 March 2018 mainly due to the change in customer demand. It is expected that future sales performance will follow the actual situation in the current year.

The Directors considered that the goodwill attributable to industrial control system cash generating unit was impaired as the early termination of the Group's exclusive right to use Synertone 1 satellite bandwidth resources reduced the anticipated cash flows from the future operating synergies through the combination of the automation control systems provided by the MOX Group with the support of Synertone 1 satellite system.

The Directors considered that the goodwill attributable to building intelligence and smart home cash generating unit was impaired as there was change in customer demands mainly due to fierce market competition that resulted in a decline of actual sales during the current year and reduced anticipated cash flows from the future operating synergies from exploiting the customer base of the Sense Field Group for the Group's existing communication business.

Due to the early termination of the Group's exclusive right to use the Synertone 1 satellite bandwidth resources as explained above, the Directors considered that the relevant intangible asset was impaired as the anticipated cash flows to be generated from the future use of the asset would be uncertain.

Finance costs

The finance costs of the Group was approximately HK$29.4 million for the year ended 31 March 2018, comprising interest on bank and other borrowings of approximately HK$9.2 million and finance charges of approximately HK$18.3 million on finance lease payables and effective interest on convertible bonds of approximately HK$1.9 million that were issued during the current year. The increase in finance costs of approximately HK$4.4 million or 17.6% from approximately HK$25.0 million in prior year was due to the increase in bank and other borrowings and convertible bonds issued during the current year.

Income tax

The tax credit of the Group increased by approximately HK$13.4 million or 169.6% from approximately HK$7.9 million for the year ended 31 March 2017 to approximately HK$21.3 million for the year ended 31 March 2018, mainly attributable to the overprovision of PRC enterprise income tax in prior years and the increase in deferred tax credit along with the reversal of temporary differences arising on fair value adjustments on property, plant and equipment and intangible assets.

Loss for the year

Given the foregoing factors, the Group recorded the loss attributable to owners of the Company of approximately HK$545.1 million for the year ended 31 March 2018, while the loss attributable to owners of the Company for the preceding financial year was approximately HK$196.7 million.

Capital structure, liquidity and financial resources

The liquidity requirements arise principally from the need for working capital to finance its operations and expansions. The Group has been meeting its working capital and other capital requirements principally from cash generated from its operations, bank borrowings and capital contributions by its shareholders. In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings.

On 23 May 2017, the Company and Baoshan International Group Limited (寶山國際集團有限公司) (the "Subscriber"), an independent third party, entered into a subscription agreement (the "Subscription Agreement"), pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, convertible bonds in the principal amount of HK$48,000,000 in tranche(s) (the "Convertible Bonds") in accordance with the written demand(s) by the Company to be made within twelve months immediately after the completion of conditions precedent specified in the Subscription Agreement which took place on 6 June 2017. The Board considers that the issue of the Convertible Bonds represents an opportunity to raise additional funds for the Company to cater for its future needs while broadening the capital base of the Company and is an appropriate means of raising funds since they will not have an immediate dilution effect on the shareholding of the existing shareholders of the Company (the "Shareholders"). Furthermore, under the Subscription Agreement, issuance of the Convertible Bonds shall be made with reference to the capital need of the Company, and the Company is entitled to much flexibility in terms of the timing of issuance of the Convertible Bonds and their value.

The Convertible Bonds shall mature after 2 years from the date of issue, and bear interest at 5% per annum on the outstanding principal thereof payable in arrears annually. The initial conversion price of the Convertible Bonds is HK$0.16 per Share, representing a premium of approximately 15.11% to the closing price of HK$0.139 per Share as quoted on the Stock Exchange on 23 May 2017, being the date of the Subscription Agreement. A maximum number of 300,000,000 conversion shares, which will rank pari passu with other Shares in issue in all respects, will be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 30 September 2016.

As at 31 March 2018, the Company has issued Convertible Bonds in aggregate principal amount of HK$20,000,000 upon receipt of subscription money from the Subscriber after written demands made by the Company. The net proceeds arising from the issue of the Convertible Bonds, after deduction of expenses, amounted to approximately HK$19,970,000, which were intended to be used for the Group's general working capital and such net proceeds were fully utilised as intended, for payment of salaries, legal and professional fees and rental expenses as at 31 March 2018. For further details of the issue of Convertible Bonds, please refer to the Company's announcements dated 23 May 2017, 6 June 2017, 13 June 2017 and 2 August 2017.

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 the 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 2018, the warrants were not yet exercised.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 31 March 2018 was approximately 0.7 (31 March 2017: approximately 0.9). Gearing ratio calculated by total borrowings (comprising bank and other borrowings, convertible bonds payable and finance lease payables) net of cash and cash equivalents, over total equity as at 31 March 2018 was (387)% (31 March 2017: 197%). Notwithstanding the above, the Directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period as (a) the Group was not in the position to pay certain finance lease payables to the Vendor of the Synertone 1 satellite bandwidth for the bandwidth resources fees from the fifth service year onwards which were under dispute and negotiation as explained above; (b) the Group has raised additional capital after the end of the reporting period as described in the section headed "Events after the Reporting Period" below; and (c) the Group is able to generate sufficient operating cash flows to meet its financial obligations. Accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

The following table summarises the cash flows of the Group for the year ended 31 March 2018 together with the comparative figures for the year ended 31 March 2017:

	2018	2017
	HK$'000	*HK$'000*
Net cash used in operating activities	**(5,385)**	(14,492)
Net cash used in investing activities	**(5,037)**	(53,241)
Net cash (used in)/generated from financing activities	**(1,831)**	74,140

Operating activities

Net cash used in operating activities amounted to approximately HK$5.4 million for the year ended 31 March 2018 as compared to approximately HK$14.5 million for the year ended 31 March 2017. The decrease in net cash used in operating activities was mainly attributable to the positive movement in net working capital changes arising from collection of overdue receivable balances.

Investing activities

Net cash used in investing activities amounted to approximately HK$5.0 million for the year ended 31 March 2018 as compared to approximately HK$53.2 million for the year ended 31 March 2017. The decrease in net cash used in investing activities was due to less capital expenditure incurred for upgrade of Synertone 1 satellite system and loan advanced to an independent third party.

Financing activities

Net cash used in financing activities amounted to approximately HK$1.8 million for the year ended 31 March 2018 due to the effect of net repayment of bank and other borrowings. For the year ended 31 March 2017, net cash generated from financing activities amounted to approximately HK$74.1 million mainly due to new share capital raised from the rights issue, partly offset by the consideration paid for the further acquisition of 36% equity interest in Sense Field.

Bank and other borrowings

As at 31 March 2018, the Group had outstanding bank and other borrowings of approximately HK$171.7 million (31 March 2017: approximately HK$165.2 million).

Pledge of assets

As at 31 March 2018, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK$40.6 million (31 March 2017: approximately HK$53.7 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent liabilities

As at 31 March 2018, the Group had no material contingent liabilities.

Material acquisitions and disposals

On 29 June 2016, the Group entered into a conditional agreement (the "Further Acquisition Agreement") with the three shareholders of Sense Field ("Vendors") for the further acquisition of 36% equity interest in Sense Field for a consideration of HK$130 million to be satisfied by cash (the "Further Acquisition"). The Directors are of the view that the Further Acquisition would enable the Group to consolidate and secure control over the Sense Field Group which would allow it to better diversify its customers' base in the private sector, particularly with regard to property development companies in the PRC. The Further Acquisition has been approved by Shareholders at an extraordinary general meeting held on 16 January 2017 and completed on 30 March 2017.

Pursuant to the Further Acquisition Agreement, consideration of HK$117 million has been paid in cash to the Vendors during the year ended 31 March 2017. The remaining HK$13 million (the "Retention Funds") shall be paid by the Group to the Vendors within 14 business days after the consolidated audited accounts of the Sense Field Group for the year ended 31 December 2016 become available, provided that the earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Sense Field Group for the year ended 31 December 2016 is not less than HK$40 million (the "First-year Target"). The First-year Target was not met.

In accordance with the Further Acquisition Agreement, in the event that the First-year Target cannot be met, the Group shall pay to the Vendors within 14 business days after the consolidated audited accounts of the Sense Field Group for the year ended 31 December 2017 ("2017 Accounts") become available an amount equal to:

(a) the Retention Funds, when the aggregate EBITDA for the two years ended 31 December 2017 exceeds HK$95 million (the "Two-year Target"); or

(b) the difference between the Retention Funds and the shortfall, calculated by the Two-year Target minus the aggregate EBITDA for the two years ended 31 December 2017 (the "Shortfall"), when the Two-year Target cannot be met. If the Retention Funds is not sufficient to cover the Shortfall, the Group shall not be required to pay any amount to the Vendors and the Vendors shall, within 60 days after the 2017 Accounts shall become available, indemnify the Group an amount equivalent to the difference between the Retention Funds and the Shortfall.

As the actual aggregate EBITDA for the two years ended 31 December 2017 could not meet the Two-year Target and the Retention Funds is not sufficient to cover the Shortfall by approximately HK$72.6 million, the Group is entitled to indemnify the said amount from the Vendors which was recorded in trade and other receivables in the Group's consolidated statement of financial position as at 31 March 2018. As at the date of this announcement, the Vendors' indemnification obligations mentioned above have yet satisfied. The Company will make further announcement on any material development of the compensation under the aforesaid profit guarantee as and when appropriate.

Significant capital expenditure for the year

Save as disclosed above, the Group has no significant capital expenditure commitments as at 31 March 2018.

Risk of foreign exchange fluctuations

Substantially all transactions of the Group are denominated in Renminbi ("RMB"), United State dollars and Hong Kong dollars and most of the bank deposits are in RMB and Hong Kong dollars to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against United States dollars and Hong Kong dollars 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 2018.

Employee and remuneration policy

As at 31 March 2018, the Group had 257 employees (31 March 2017: 449). For the year ended 31 March 2018, the staff costs (including Directors' remuneration) of the Group amounted to approximately HK$44.9 million which decreased by approximately HK$10.7 million or 19.2% as compared to HK$55.6 million for the corresponding period last year, mainly due to the decrease in staff cost attributable to the provision of specialised communication systems business.

The Group's employee remuneration policy is determined based on a number of factors such as individual performance, experience and prevailing industry practices. Compensation policies and packages of employees are being reviewed on a yearly basis. In addition to basic salary, performance related remuneration such as bonus may also be awarded to employees based on internal performance evaluation. The Group also adopted a share option scheme and eligible participants of which may be granted the share options to subscribe for the shares of the Company. As at 31 March 2018, the Company had 45,179,000 share options outstanding under the share option scheme which was adopted on 22 March 2012.

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

EVENTS AFTER THE REPORTING PERIOD

On 31 May 2018, the Company completed the allotment and issue of 653,016,000 new Shares at the subscription price of HK$0.08 per Share to an independent third party. The net proceeds of approximately HK$52.2 million arising from the subscription will be applied for general working capital and/or further investments of the Group as and when the opportunities arise. For further details, please refer to the Company's announcements dated 9 May 2018 and 31 May 2018.

On 15 June 2018, the Subscriber has made the payment of subscription money of the Convertible Bonds in a principal amount of HK$28,000,000 and the Company completed the issuance of this tranche of the Convertible Bonds to the Subscriber. Following such issuance, the Convertible Bonds in an aggregate principal amount of HK$48,000,000 were fully subscribed by the Subscriber. For details of the Convertible Bonds, please refer to the section headed "Capital structure, liquidity and financial resources" above and the Company's announcement dated 15 June 2018.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2018.

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 Thursday, 6 September 2018 (the "2018 AGM"), the register of members of the Company will be closed from Friday, 31 August 2018 to Thursday, 6 September 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2018 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 30 August 2018.

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 2018.

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 2018 apart from code provision E.1.2 as disclosed below.

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Wong Chit On, the chairman of the Board, was not able to attend the annual general meeting held on 6 September 2017 (the "2017 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 2017 AGM to answer and address questions raised by the Shareholders at the 2017 AGM.

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 dealing in the Company's securities. Having made specific enquiry to all Directors, all Directors have confirmed that they have complied with the required standards of dealings as set out in the Model Code during the year ended 31 March 2018.

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 2018 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLICATION OF ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.synertone.net). The annual report of the Company for the year ended 31 March 2018 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

For and on behalf of the Board
Synertone Communication Corporation
Wong Chit On
Chairman and Executive Director

Hong Kong, 28 June 2018

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