SYNERTONE

SYNERTONE COMMUNICATION CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1613)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2013

The board of directors (the "Board") of Synertone Communication Corporation (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2013 together with the comparative figures for the year ended 31 March 2012 as follows:

ANNUAL RESULTS

Consolidated Income Statement

For the year ended 31 March 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	5	**115,690**	218,264
Cost of sales		**(41,574)**	(69,561)
Gross profit		**74,116**	148,703
Other revenue	6	**33,856**	3,844
Selling and distribution expenses		**(12,007)**	(11,008)
Administrative expenses		**(31,499)**	(35,307)
Research and development expenditure	7(c)	**(16,576)**	(15,184)
Profit from operations		**47,890**	91,048
Finance costs	7(a)	**–**	(1,231)
Profit before taxation	7	**47,890**	89,817
Income tax	8	**(11,883)**	(26,207)
Profit for the year attributable to owners of the Company		**36,007**	63,610
Earnings per share	9		
— Basic and diluted		**HK3.04 cents**	HK7.07 cents

Details of dividends payable to owners of the Company attributable to profit for the year are set out in note 12.

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2013

	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**36,007**	63,610
Other comprehensive income for the year		
Exchange differences on translation of financial statements of PRC subsidiaries	**2,004**	4,900
Total comprehensive income for the year (net of tax) attributable to owners of the Company	**38,011**	68,510

Consolidated Statement of Financial Position
As at 31 March 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment		**51,766**	9,686
Intangible assets		**12,231**	9,948
Deposits paid for acquisition of intangible assets		**4,680**	–
		68,677	19,634
Current assets			
Inventories		**19,590**	16,674
Trade and other receivables	*10*	**119,919**	190,285
Tax recoverable		**–**	919
Cash and cash equivalents		**124,549**	37,232
		264,058	245,110
Current liabilities			
Trade and other payables	*11*	**24,223**	25,550
Amount due to a director		**241**	–
Current taxation		**20,214**	22,178
		(44,678)	(47,728)
Net current assets		**219,380**	197,382
Total assets less current liabilities		**288,057**	217,016
Non-current liabilities			
Deferred tax liabilities		**(9,871)**	(12,936)
Net assets		**278,186**	204,080
EQUITY			
Equity attributable to owners of the Company			
Share capital		**12,000**	9,000
Reserves		**266,186**	195,080
Total equity		**278,186**	204,080

Notes to the Financial Statements

For the year ended 31 March 2013

1. GENERAL

Synertone Communication Corporation (the "Company") was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Block B, Teng Bang Building, Qingshuihe Yi Road North, Luohu District, Shenzhen, the People's Republic of China (the "PRC") 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 "Listing").

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies and providing a total solution of specialised communication system, including digital trunking system, Very Small Aperture Terminal ("VSAT") satellite system and operation integrated system.

The principal operations of the Group are conducted in the PRC. The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company, while the functional currency of the subsidiaries incorporated in the PRC is Renminbi ("RMB"). The directors consider that presenting consolidated financial statements in HK$ is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to its immediate parent and ultimate holding company whose functional currency is HK$.

2. 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 of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements for the year ended 31 March 2013 comprise the financial statements of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA:

Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

As described below, the application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting years and/or on the disclosures set out in these financial statements.

Amendments to HKFRS 7, Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Deferred Tax: Recovery of Underlying Assets

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40 *Investment Property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The application of the amendments to HKAS 12 does not have impact as the Group currently does not have any investment property.

4. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On adoption of HKFRS 8, Operating segments, and in a manner consistent with the way in which information is reported internally to the Chairman, 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:

Digital trunking system: Digital trunking system is designed to meet the demand from governmental departments or agencies, public utilities institutions and business enterprises for public safety and emergency communication, mainly consists of CITONE digital trunking radio communication system, WITONE digital trunking radio communication system and DITONE digital trunking radio communication system. Based on the specifications of customers, the Group offers a range of core components forming digital trunking system which can be operated under direct network, transmission network, single base station trunking network, single area multiple base stations network and multi-area network. Different modes of digital trunking system can be set up and operated with various combinations of components addressing particular needs of users.

VSAT satellite system: VSAT satellite system is a component of the specialised communication system. VSAT satellite antenna is a major component of the VSAT satellite system which enables and maintains communication under in-motion mode. With different models of VSAT satellite antennae, the Group offers different VSAT satellite systems including (a) VSAT low speed satellite transmission system; (b) VSAT high speed dynamic digital satellite system and (c) VSAT high speed stationary digital satellite system.

Systems technologies: This segment developed a wide variety of technical know-how and technology relating to specialised communication system. The customers (a) paid a licensing fees to the Group for the use of certain technical know-how and technology; and (b) paid commissions to the Group to conduct research and development and to design and develop particular technical know-how to meet their specifications and requirements and needs.

The Group combined other business activities in "Others", in which, the Group offers accessory parts and components, as options to the customers for use in specialised communication system industry or other industry in accordance with customers' specifications.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's Chairman 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 other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the production and sales activities of the individual segments with the exception of 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 items not specifically attributed to an individual reportable segment and other unallocated corporate expenses.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter-segment sales), interest income, value-added taxes refund, finance costs, amortisation of intangible asset, depreciation of property, plant and equipment, write down of obsolescent inventories, reversal of write down of inventories, loss on disposal of property, plant and equipment, research and development expenditure, income tax 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 chairman and executive director for the purpose for resource allocation and assessment of segment performance for the year is as follows:

	Digital trunking system		VSAT satellite system		Systems technologies		Others		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers *(note)*	**106,768**	182,899	**8,863**	20,127	**–**	13,424	**59**	1,814	**115,690**	218,264
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**106,768**	182,899	**8,863**	20,127	**–**	13,424	**59**	1,814	**115,690**	218,264
Reportable segment profit/(loss) (adjusted EBIT)	**56,347**	100,871	**(2,867)**	(9,440)	**–**	11,050	**–**	1,480	**53,480**	103,961
Interest income	**584**	164	**10**	13	**–**	13	**–**	1	**594**	191
Value-added taxes refund	**30,932**	2,531	**–**	–	**–**	–	**–**	–	**30,932**	2,531
Finance costs	**–**	(89)	**–**	(1,142)	**–**	–	**–**	–	**–**	(1,231)
Amortisation of intangible assets	**(5,010)**	(4,376)	**(817)**	(892)	**–**	(62)	**–**	(8)	**(5,827)**	(5,338)
Depreciation of property, plant and equipment	**(2,724)**	(2,813)	**(226)**	(310)	**–**	(206)	**(2)**	(28)	**(2,952)**	(3,357)
Write down of obsolescent inventories	**(1,850)**	(964)	**–**	–	**–**	–	**–**	–	**(1,850)**	(964)
Reversal of write down of inventories	**1,398**	1,877	**–**	–	**–**	–	**–**	–	**1,398**	1,877
Loss on disposal of property, plant and equipment	**–**	(416)	**–**	(18)	**–**	(30)	**–**	(4)	**–**	(468)
Research and development expenditure	**(13,064)**	(11,735)	**(3,512)**	(3,356)	**–**	(93)	**–**	–	**(16,576)**	(15,184)
Income tax	**(11,687)**	(23,238)	**(196)**	(1,101)	**–**	(1,597)	**–**	(271)	**(11,883)**	(26,207)
Reportable segment assets	**320,667**	219,812	**7,171**	22,108	**–**	16,817	**–**	1,406	**327,838**	260,143
Additions to non-current segment assets										
— Property, plant and equipment	**43,707**	2,166	**731**	238	**–**	159	**–**	22	**44,438**	2,585
— Intangible assets	**8,030**	–	**–**	–	**–**	–	**–**	–	**8,030**	–
	51,737	2,166	**731**	238	**–**	159	**–**	22	**52,468**	2,585
Reportable segment liabilities	**51,706**	41,351	**2,037**	2,578	**–**	2,073	**3**	338	**53,746**	46,340
Customer A	**43,249**	75,725	**7,359**	8,066	**–**	13,424	**59**	138	**50,667**	97,353
Customer B	**38,566**	54,369	**–**	–	**–**	–	**–**	–	**38,566**	54,369
Customer C	**21,176**	38,676	**–**	–	**–**	–	**–**	1,540	**21,176**	40,216
	102,991	168,770	**7,359**	8,066	**–**	13,424	**59**	1,678	**110,409**	191,938

Note: Revenues of three (2012: three) customers, each of them accounted for 10 percent or more of the Group's revenue for the year ended 31 March 2013 are set out above.

(b) 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, intangible assets and deposits paid for the acquisition of intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, and the location of the operation to which they are allocated in the case of intangible assets and deposits paid for acquisition of intangible assets.

	Revenue from external customers		**Non-current assets**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**48**	7,885	**1,403**	22
PRC	**115,642**	210,379	**67,274**	19,612
	115,690	218,264	**68,677**	19,634

5. TURNOVER

The principal activities of the Group are the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies and providing a total solution of specialised communication system, including digital trunking system, VSAT Satellite System and operation integrated system.

Turnover 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:

	2013	2012
	HK$'000	*HK$'000*
Digital trunking system	**106,768**	182,899
VSAT satellite system	**8,863**	20,127
Systems technologies	**–**	13,424
Other accessory parts and components	**59**	1,814
	115,690	218,264

6. OTHER REVENUE

	2013	2012
	HK$'000	*HK$'000*
Bank interest income from bank deposits *(note a)*	**595**	191
Government grants *(note b)*	**2,162**	983
Value-added taxes refund *(note c)*	**30,932**	2,531
Sundry income	**167**	139
	33,856	3,844

Note:

(a) Bank interest income from bank deposits 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) Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2013	2012
	HK$'000	*HK$'000*
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on bank borrowings wholly repayable within five years	**–**	1,231

(b) Staff costs (including directors' remuneration)

	2013	2012
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**39,554**	48,062
Retirement benefit scheme contributions	**845**	1,222
	40,399	49,284

(c) Other items

	2013	2012
	HK$'000	*HK$'000*
Auditor's remuneration	**500**	500
Cost of inventories	**41,574**	69,561
Amortisation of intangible assets	**5,827**	5,338
Depreciation of property, plant and equipment	**2,952**	3,357
Loss on disposal of property, plant and equipment	**–**	468
Net exchange gain	**(1,146)**	(2,087)
Operating lease charges in respect of leased property	**5,448**	5,373
Research and development expenditure*	**16,576**	15,184

* Research and development expenditure for the year ended 31 March 2013 included approximately HK$7,969,000 (2012: HK$11,550,000) relating to staff costs to which the amounts were also included in the respective total amounts disclosed separately in note 7(b).

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2013	2012
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax ("EIT") *(note (iv))*	**15,955**	23,548
Over-provision in respect of prior years		
PRC EIT	**(1,007)**	–
	14,948	23,548
Deferred tax		
Origination and reversal of temporary differences	**(3,065)**	2,659
	11,883	26,207

Notes:

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

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

(iii) 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.

(iv) PRC subsidiaries are subject to PRC EIT at 25%. The PRC subsidiaries of the Group, Synertone Soontend Electronic (Shenzhen) Company Limited ("Synertone Soontend") and Synertone Smartend Communication Technology (Shenzhen) Company Limited ("Synertone Smartend"), being the foreign invested "encouraged hi-tech enterprise" were entitled to a preferential EIT rate of 15% (2012: 15%).

For Synertone Soontend, the period of grant of preferential EIT rate expired on 31 December 2012. The EIT rate was therefore 25% for the period from 1 January 2013 to 31 March 2013.

In June 2013, pursuant to the notice issued by the relevant authority in the PRC, Synertone Soontend has submitted the application for renewal as being an "encouraged hi-tech enterprise". The application is still in progress up to the date of approval of the financial statements.

(v) Under the EIT Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% upon government approval of the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25% on 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. Deferred tax liabilities of approximately HK$9,871,000 (2012: HK$12,804,000) in respect of the withholding income tax on dividend to be paid out of earnings not yet distributed since 1 January 2008 has been recognised by the Group for the year ended 31 March 2013.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK$36,007,000 (2012: HK$63,610,000) and the weighted average number of 1,186,027,000 ordinary shares (2012: 900,000,000 ordinary shares) in issue during the year, calculated as follows:

	2013	2012
	HK$'000	*HK$'000*
Profit attributable to owners of the Company	**36,007**	63,610

	2013	2012
	'000	*'000*
Weighted average number of ordinary shares at end of the year	**1,186,027**	900,000

(b) Diluted earnings per share

Diluted earnings per share for both the years ended 31 March 2013 and 31 March 2012 were the same as the basic earnings per share as no potential ordinary share was in issue for both years.

10. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**115,824**	178,100
Advance to suppliers	**1,214**	1,033
Advance to staff	**879**	720
VAT receivables	**175**	–
Loans and receivables	**118,092**	179,853
Prepayment for acquisition of intangible assets	**–**	3,315
Other prepayments and deposits	**1,827**	7,117
	119,919	190,285

The following is an analysis of trade receivables by age presented based on date of delivery:

	2013	2012
	HK$'000	*HK$'000*
0–60 days	**50,662**	84,294
61–90 days	**22,832**	4,530
91–180 days	**588**	87,405
181–365 days	**40,190**	–
Over 365 days	**1,552**	1,871
	115,824	178,100
Less: Impairment loss on trade receivables	**–**	–
	115,824	178,100

For the year ended 31 March 2013, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (2012: 30 to 180 days). A longer credit period of 181 to 365 days (2012: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history.

The directors consider the carrying amounts of trade receivables approximate to their fair values.

11. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**13,524**	12,666
Accrued salaries	**1,732**	1,711
Accrued expenses and other payables	**1,428**	2,249
Financial liabilities measured at amortised costs	**16,684**	16,626
Deposits received from customers	**1,544**	653
Other tax payables	**5,995**	8,271
	24,223	25,550

The following is an analysis of trade payables by age presented based on the date of receipt:

	2013	2012
	HK$'000	*HK$'000*
0–60 days	**9,316**	2,983
61–90 days	**40**	871
91–180 days	**413**	3,200
181–365 days	**1,008**	2,741
Over 365 days	**2,747**	2,871
	13,524	12,666

The credit terms granted by the suppliers were generally ranging from 30 to 180 days (2012: 30 to 180 days). The directors consider the carrying amounts of trade payables approximate to their fair values.

12. DIVIDENDS

(a) Dividends payable to owners of the Company attributable to the year are as follows:

	2013	2012
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK3 cents per ordinary share	**–**	27,000
Final dividend proposed of HK3 cents (2012: HK4 cents) per ordinary share after the end of the reporting period	**36,000**	48,000
	36,000	75,000

The final dividend proposed after the end of the reporting period is based on 1,200,000,000 ordinary shares (2012: 1,200,000,000 ordinary shares), being the total number of issued shares at the date of approval of the financial statements.

The final dividend for 2013 proposed after the end of the reporting period is subject to shareholders' approval in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year

	2013	2012
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents per ordinary share (2012: Nil)	**48,000**	–

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is a provider of core components of specialised communication system. The Group has designed and developed its products and technologies relating to digital trunking and satellite communication systems through its own research and development and acquisition of relevant intellectual property rights and technology know-how from third parties. In addition, the Group provides specialised communication network design and implementation solutions that can be customarily devised according to the specific needs of client. The Group also engages in research and development of systems technologies for the operation of the specialised communication system and sale of accessory parts and components to some of its customers for further integration or other related uses. Products of the Group are mainly utilized by end-users for public safety and emergency communication purposes. For example, users are able to remotely monitor and co-ordinate emergency rescue exercises or remotely monitor the operation of and location of vehicles through the use of the Group's products. Customers or end-users of the Group's products and solutions are mainly governmental bodies and private business enterprises.

For the year ended 31 March 2013, revenue of the Group amounted to approximately HK$115.7 million, representing a decrease of approximately HK$102.6 million or 47.0% from approximately HK$218.3 million for the year ended 31 March 2012. The decrease was mainly resulted from the economic and political uncertainties surrounding the domestic and foreign territories, the slow global economic recovery and weaker demand of the Group's products and systems in the PRC. The Group's products were principally sold in the PRC which accounted for approximately HK$115.6 million or 99.9% out of the total revenue of approximately HK$115.7 million. The Group derived its revenue substantially from digital trunking system which accounted for approximately HK$106.8 million or 92.3% of its total revenue for the year ended 31 March 2013.

In order to compete with other competitors in the satellite communication market by offering products with higher performance and on the other hand lower the cost of VSAT satellite system, the Group underwent the research and development of its own high-end satellite antenna (being a core component of VSAT high speed dynamic digital satellite system). In 2013, the Group officially launched and marketed the Group's own antenna to the customers and commenced the production.

Financial review

Turnover

The Group recorded a revenue of approximately HK$115.7 million for the year ended 31 March 2013, representing a decline of approximately HK$102.6 million or 47.0% from approximately HK$218.3 million for the year ended 31 March 2012, mainly resulting from the economic and political uncertainties surrounding the domestic and foreign territories, the slow global economic recovery and weaker demand of the Group's products and systems in the PRC.

During the year ended 31 March 2013, the Group derived its revenue substantially from digital trunking system. The following table sets forth a breakdown of revenue by product category for the years indicated:

	2013		2012	
	HK$'000	*%*	*HK$'000*	*%*
Digital trunking system	**106,768**	**92.3**	182,899	83.8
VSAT satellite system	**8,863**	**7.6**	20,127	9.2
Systems technologies	**–**	**–**	13,424	6.2
Other accessory parts and components	**59**	**0.1**	1,814	0.8
	115,690	**100.0**	218,264	100.0

The sales of digital trunking system decreased significantly by approximately HK$76.1 million or 41.6% from approximately HK$182.9 million for the year ended 31 March 2012 to approximately HK$106.8 million for the year ended 31 March 2013. The decrease was mainly due to the decrease in sales of CITONE digital trunking mobile communication systems as a result of decrease in sales orders from some of its major customers because of the economic and political uncertainties. The sales of VSAT satellite system experienced a decrease of approximately HK$11.2 million or 56.0% from approximately HK$20.1 million for the year ended 31 March 2012 to approximately HK$8.9 million for the year ended 31 March 2013. The decrease in sales of the VSAT satellite system was mainly attributable to the slow global economic recovery which weaken the demand of VSAT satellite system. Revenue derived from system technologies was nil for the year ended 31 March 2013, primarily as a result of no technology being licensed to the Group's customers for the year ended 31 March 2013, as compared to two technologies being licensed for the year ended 31 March 2012 which contributed approximately HK$13.4 million or 6.2% of the total sales last year. The sales of other accessory parts and components amounted to approximately HK$59,000 for the year ended 31 March 2013.

Cost of sales

Cost of sales of the Group comprises costs of raw materials, labour costs, manufacturing overheads and amortisation of intangible assets. It decreased by approximately HK$28.0 million or 40.2% from approximately HK$69.6 million for the year ended 31 March 2012 to approximately HK$41.6 million for the year ended 31 March 2013, the decrease was in line with the decrease in turnover.

Gross profit and gross profit margin

As a result of the foregoing factors, the gross profit of the Group decreased by approximately HK$74.6 million or 50.2% from approximately HK$148.7 million for the year ended 31 March 2012 to approximately HK$74.1 million for the year ended 31 March 2013. The gross profit margin of the Group decreased from approximately 68.1% for the year ended 31 March

2012 to approximately 64.1% for the year ended 31 March 2013, primarily because of certain fixed costs such as manufacturing overheads and labour costs maintaining relatively stable as compared to the last year despite the decrease in sales.

Other revenue

The other revenue of the Group amounted to approximately HK$33.9 million for the year ended 31 March 2013, representing an increase of approximately HK$30.0 million or 780.7% from approximately HK$3.9 million for the year ended 31 March 2012, mainly contributed by a grant of the value-added tax refund by the relevant government authority of approximately HK$30.9 million as a financial support to the business of specialised communication system in which the Group is operating, and government grants of approximately HK$2.2 million from relevant government bodies for the purpose of giving incentive to hi-tech enterprise.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately HK$1.0 million or 9.1% from approximately HK$11.0 million for the year ended 31 March 2012 to approximately HK$12.0 million for the year ended 31 March 2013, primarily due to the increase in travelling expense of the sales staff for marketing the Group's products in light of the sales drop and for the promotion of the newly developed satellite antenna, and the increase in repair cost for products sold under warranty as demanded by the customers.

Administrative expenses

The administrative expenses of the Group decreased by approximately HK$3.8 million or 10.8% from approximately HK$35.3 million for the year ended 31 March 2012 to approximately HK$31.5 million for the year ended 31 March 2013, primarily due to a smaller amount of legal and professional expenses amounting to approximately HK$4.3 million charged for the year, as compared to approximately HK$11.0 million including the listing expense of approximately HK$9.3 million charged last year.

Research and development expenditure

The research and development expenditure of the Group increased by approximately HK$1.4 million or 9.2% from approximately HK$15.2 million for the year ended 31 March 2012 to approximately HK$16.6 million for the year ended 31 March 2013. The increase was mainly attributable to the combined effect of the increase in materials costs and other expenditures in relation to the development of the satellite antenna, and the decrease in staff costs for the research and development of CITONE digital trunking mobile communication systems as the associated technologies have already been well developed.

Finance costs

The finance costs of the Group was nil for the year ended 31 March 2013, as compared to approximately HK$1.2 million for the year ended 31 March 2012, since the Group had no bank borrowings during the year under review.

Tax expense

The tax expense of the Group decreased by approximately HK$14.3 million or 54.6% from approximately HK$26.2 million for the year ended 31 March 2012 to approximately HK$11.9 million for the year ended 31 March 2013 mainly due to the decline of the Group's revenue.

Profit for the year

The Group's profits for the year decreased by approximately HK$27.6 million or 43.4% from approximately HK$63.6 million for the year ended 31 March 2012 to approximately HK$36.0 million for the year ended 31 March 2013 as a result of the factors described above.

Liquidity and capital resources

The liquidity requirements arise principally from the need for working capital to finance its operations and expansions. The Group has historically met 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. The following table summarises the cash flows for the two years ended 31 March 2012 and 2013:

	2013	2012
	HK$'000	*HK$'000*
Net cash generated from operating activities	**105,985**	36,334
Net cash used in investing activities	**(56,553)**	(4,685)
Net cash generated from/(used in) financing activities	**36,095**	(41,362)

Operating activities

Net cash generated from operating activities amounted to approximately HK$106.0 million for the year ended 31 March 2013 compared to approximately HK$36.3 million for the year ended 31 March 2012. The increase was due to the combined effect of the decrease in trade and other receivables of approximately HK$102.0 million, the increase in amount due to directors of approximately HK$11.8 million, the decrease in income tax payment of approximately HK$4.4 million, and the decrease in profit before taxation of approximately HK$41.9 million.

Investing activities

Net cash used in investing activities amounted to approximately HK$56.6 million for the year ended 31 March 2013 compared to approximately HK$4.7 million for the year ended 31 March 2012. The increase in the net cash used in investing activities was mainly attributable to the acquisition of property, plant and equipment which amounted to HK$44.4 million.

Financing activities

Net cash generated from financing activities amounted to approximately HK$36.1 million for the year ended 31 March 2013 compared to net cash used in financing activities amounting to approximately HK$41.4 million for the year ended 31 March 2012. The significant increase was primarily due to the combined effect of the proceeds from the Listing of approximately HK$99.0 million, the increase in dividend paid of approximately HK$21.0 million for the year ended 31 March 2013 and the increase in payment of transaction costs attributable to the Listing of approximately HK$10.4 million.

Material transaction

During the period under review, the Group entered into the following material transactions:

1. On 29 March 2013, Vastsuccess Holdings Limited ("VAST"), being the wholly owned subsidiary of the Company, entered into a definitive agreement (subsequently amended by an amendment agreement dated 10 April 2013) with IPSTAR Company Limited (the "Vendor"), a subsidiary of Thaicom Public Company Limited, the issued shares of which are listed on The Stock Exchange of Thailand. Pursuant to the definitive agreement, VAST conditionally agreed to acquire from the Vendor and the Vendor conditionally agreed to provide to VAST (i) the bandwidth capacity and the bandwidth capacity service and (ii) the right to use of the gateways located in Guangzhou, Beijing and Shanghai (collectively, the "Assets") for the transmission of broadband Internet access and other applications throughout the service period of 9.5 years.

   The total consideration for the transaction amounts to US$80.0 million, based on normal commercial terms after arm's length negotiations, which consists of (i) cash installments in aggregate of approximately US$75.9 million; and (ii) the 64,000,000 consideration shares amounting to approximately US$4.1 million to be allotted and issued at the issue price of HK$0.5034 per consideration share on the date on which service commencement takes place. The transaction under the definitive agreement constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to approval by the shareholders.

2. On 29 March 2013, VAST and the Vendor entered into a revenue sharing agreement pursuant to which VAST will share its revenue derived from the service provision of the bandwidth capacity and right to use of the gateways located in Guangzhou, Beijing and Shanghai to its customers with the Vendor. VAST and the Vendor agreed that during the agreement term, revenue entitled to receive by VAST shall be shared with the Vendor at 8% of the sum of revenue derived from (i) the revenue entitled to receive by VAST through China Telecom Satellite Communications Limited's service providers or customers; and (ii) the revenue entitled to receive by VAST through VAST's customers.

An extraordinary general meeting will be convened to seek approval from the shareholders for the transactions contemplated under the definitive agreement and the revenue sharing agreement. Please refer to the announcements of the Company dated 30 December 2012 and 15 April 2013 for further details. The circular of the transactions will be despatched to shareholders in due course.

Bank borrowings

As of 31 March 2013, the Group had no outstanding bank borrowings.

Pledge of assets

As of 31 March 2013, the Group had no assets pledged for securing any credit facilities.

Contingent liabilities

As at 31 March 2013, the Group had no material contingent liabilities.

Significant capital expenditure for the year

The Group's capital expenditures for the year under review was approximately HK$57.1 million which was mainly used for office decoration and leasehold improvement of HK$44.4 million for the relocation of the office in the PRC, purchase of intangible assets of HK$8.0 million; and deposit payment of HK$4.7 million in respect of material transaction mentioned above.

Future plans for material investments and capital assets

Save for the proposed acquisition as disclosed in the paragraph headed "Material transaction" above, the Group did not have other plans for material investments and capital assets.

Employee and remuneration policy

As at 31 March 2013, the Group had 227 employees. For the year ended 31 March 2013, the staff cost of the Group was approximately HK$40.4 million.

The Group's employee remuneration policy is determined based on a number of factors such as their 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 salary such as bonus may also be awarded to employees based on internal performance evaluation.

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

OTHER INFORMATION

Use of Net Proceeds from the Company's Initial Public Offering

As at 31 March 2013, the Company had used approximately HK$11.2 million, HK$5.4 million and HK$17.7 million for research and development of products of digital trunking system and VSAT satellite system, expansion of sales network and the capacity expansion of the Group respectively. And as at the date of this announcement, the Group has not yet fully utilised the proceeds from the Company's initial public offering.

Annual General Meeting

The annual general meeting of the Company (the "AGM") for the year ended 31 March 2013 is scheduled to be held on 22 August 2013 (Thursday). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course in the manner required by the Listing Rules.

Final Dividend

A final dividend of HK$48.0 million was declared and fully settled for the year ended 31 March 2012. After the end of the reporting period, the Directors have proposed a final dividend of HK3 cents per ordinary share for the year ended 31 March 2013 to the Company's shareholders whose names appear on the register of members of the Company on 28 August 2013, subject to the approval of the shareholders of the Company in the AGM to be held on Thursday, 22 August 2013. If the resolution for the proposed final dividend is passed at the AGM, the proposed final dividend will be payable on or around 10 September 2013.

Closure of Register of Members

(a) For the purpose of ascertaining shareholders' entitlement to attend the forthcoming AGM to be held on Thursday, 22 August 2013, the Company's register of members will be closed from Tuesday, 20 August 2013 to Thursday, 22 August 2013 (both days inclusive), during which period no transfer of shares of the Company will be registered, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong shares registrar of the Company in Hong Kong, Tricor Investor Services Limited (the "Share Registrar"), at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 19 August 2013.

(b) For the purpose of ascertaining shareholders' entitlement to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 28 August 2013 to Thursday, 29 August 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to receive the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Share Registrar, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 27 August 2013.

Non-adjusting events after the reporting period

There were no significant events affecting the Group which have occurred since 31 March 2013.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2013.

Corporate Governance

During the year ended 31 March 2013, the Company has fully complied with the applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the following deviation from certain code provision:

Code provision A.2.1 *stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.*

The Company has appointed Mr. Wong Chit On as both the chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve a higher responsiveness efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

Resignation and Appointment of Director after Reporting Period

On 14 May 2013, Mr. Wu Xiaowen tendered his resignation as an independent non-executive director, the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company due to his own decisions to devote more time to his personal endeavours.

Following Mr. Wu's resignation, the number of independent non-executive directors and the members of the Audit Committee will fall below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules.

On 28 June 2013, the Board appointed Mr. Cai Youliang to fill a casual vacancy of the independent non-executive director and a member of Audit Committee and a member of the Remuneration Committee and the chairman of the Nomination Committee with effect from 2 July 2013.

Model Code for Securities Transactions by Directors

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended 31 March 2013.

Audit Committee

An audit committee was established by the Company with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and monitor the Group's financial reporting process and internal control system. The members of the audit committee are Lam Ying Hung Andy and Hu Yunlin, all being independent non-executive Directors. Lam Ying Hung Andy is the chairman of the audit committee. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2013 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 for the year ended 31 March 2013 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the same websites in due course.

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

Hong Kong, 28 June 2013

As at the date of this announcement, the executive directors of the Company are Mr. Wong Chit On, Mr. Lu Zhijie, Mr. Han Weining and Mr. Zhang Jinbing and the independent non-executive directors of the Company are Mr. Lam Ying Hung Andy and Mr. Hu Yunlin.