SYNERTONE

# SYNERTONE COMMUNICATION CORPORATION
# 協同通信集團有限公司

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

**(Stock Code: 1613)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2012

The board of directors (the "Board") of Synertone Communication Corporation (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 March 2012 together with the comparative figures for the year ended 31 March 2011 as follows:

## ANNUAL RESULTS

**Consolidated Income Statement**
*For the year ended 31 March 2012*

| | *Note* | **2012** *HK$'000* | 2011 *HK$'000* |
|---|---|---|---|
| **Turnover** | *4* | **218,264** | 218,824 |
| Cost of sales | | **(69,561)** | (75,743) |
| **Gross profit** | | **148,703** | 143,081 |
| Other revenue | *5* | **3,844** | 15,185 |
| Selling and distribution expenses | | **(11,008)** | (14,583) |
| Administrative expenses | | **(35,307)** | (26,783) |
| Research and development expenditure | | **(15,184)** | (17,392) |
| **Profit from operations** | | **91,048** | 99,508 |
| Finance costs | *6(a)* | **(1,231)** | (1,378) |
| **Profit before taxation** | *6(b)* | **89,817** | 98,130 |
| Income tax | *7* | **(26,207)** | (25,277) |
| **Profit for the year attributable to owners of the Company** | | **63,610** | 72,853 |
| | | ***HK(cents)*** | *HK(cents)* |
| **Earnings per share** | *8* | | |
| — Basic | | **7.07** | 8.88 |
| — Diluted | | **7.07** | 8.10 |

**Consolidated Statement of Comprehensive Income**
*For the year ended 31 March 2012*

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Profit for the year | **63,610** | 72,853 |
| **Other comprehensive income for the year (net of tax):** | | |
| Exchange differences on translation of financial statements of foreign operations | **4,900** | 5,677 |
| **Total comprehensive income for the year attributable to owners of the Company** | **68,510** | 78,530 |

**Consolidated Statement of Financial Position**
*As at 31 March 2012*

| | Note | **2012** **HK$'000** | 2011 *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **9,686** | 10,596 |
| Intangible assets | | **9,948** | 15,286 |
| | | **19,634** | 25,882 |
| **Current assets** | | | |
| Inventories | | **16,674** | 16,358 |
| Trade and other receivables | *9* | **190,285** | 154,124 |
| Amount due from ultimate holding company | | **—** | 80 |
| Amounts due from related companies | | **—** | 40 |
| Tax recoverable | | **919** | 5,372 |
| Cash and cash equivalents | | **37,232** | 57,689 |
| | | **245,110** | 233,663 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **25,550** | 27,277 |
| Amounts due to directors | | **—** | 11,569 |
| Tax payable | | **22,178** | 23,148 |
| Bank overdrafts | *11* | **—** | 16,022 |
| Bank borrowings due within one year | *12* | **—** | 8,682 |
| | | **47,728** | 86,698 |
| **Net current assets** | | **197,382** | 146,965 |
| **Total assets less current liabilities** | | **217,016** | 172,847 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **12,936** | 10,277 |
| **Net assets** | | **204,080** | 162,570 |
| **Capital and reserves** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **9,000** | 9,000 |
| Reserves | | **195,080** | 153,570 |
| **Total equity** | | **204,080** | 162,570 |

## Notes to the Financial Statements

*For the year ended 31 March 2012*

### 1. BASIS OF PREPARATION

The consolidated results set out in this announcement do not constitute the Group's financial statements for the year ended 31 March 2012 but are extracted from these financial statements.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements for the year ended 31 March 2012 comprise the financial statements of the Group.

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements of the Group for the year ended 31 March 2011 as shown in the prospectus of the Company dated 30 March 2012.

### 2. ADOPTION OF NEW AND REVISED HKFRSs

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

| | |
|---|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to HKAS 32 | Classification of Right Issues |
| Amendments HK(IFRIC) Int 14 | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) -Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

Except as described below, the application of the new and revised HKFRSs in the current year had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

**HKAS 24 Related Party Disclosures (as revised in 2009)**

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) does not have any material impact on the Group's related party disclosures in the current and previous years. The Group is not government-related entities. As a result, this does not impact the Group in the current year.

**Improvements to HKFRSs issued in 2010**

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial instruments: Disclosures. The disclosures about the Group's and the Company's financial instruments in note 32 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting period have been prepared presented. Accordingly, no prior year adjustment is required.

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements:

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures — Transfers of Financial Assets[1] |
| | Disclosures — Offsetting Financial Assets and Financial Liabilities[4] |
| | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6] |
| HKFRS 9 | Financial Instruments[6] |
| HKFRS 10 | Consolidated Financial Statements[4] |
| HKFRS 11 | Joint Arrangements[4] |
| HKFRS 12 | Disclosure of Interests in Other Entities[4] |
| HKFRS 13 | Fair Value Measurement[4] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[3] |
| Amendments to HKAS 12 | Deferred Tax — Recovery of Underlying Assets[2] |
| HKAS 19 (as revised in 2011) | Employee Benefits[4] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[4] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[4] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[5] |
| HK (IFRIC)-Int 20 | Stripping Costs in the Production Phase of a Surface Mine[4] |

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of what the impact of these new and revised standards, amendments or interpretation is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

## 3. 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 three reportable segments which include (1) digital trunking system; (2) VSAT satellite system; and (3) systems technologies.

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 and bank borrowings managed directly by the 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, such as interest income, finance costs, income tax 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 and expenses from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments for the two years ended 31 March 2011 and 2012 is as follows:

| | Digital trunking system | | VSAT satellite system | | Systems technologies | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | ***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)* | **182,899** | 174,503 | **20,127** | 38,329 | **13,424** | 5,818 | **1,814** | 174 | **218,264** | 218,824 |
| Inter-segment revenue | **—** | — | **—** | — | **—** | — | **—** | — | **—** | — |
| Reportable segment revenue | **182,899** | 174,503 | **20,127** | 38,329 | **13,424** | 5,818 | **1,814** | 174 | **218,264** | 218,824 |
| Reportable segment profit/ (loss) (adjusted EBIT) | **100,871** | 97,773 | **(9,440)** | 1,249 | **11,050** | 2,833 | **1,480** | (23) | **103,961** | 101,832 |
| Interest income | **164** | 84 | **13** | 8 | **13** | 5 | **1** | — | **191** | 97 |
| Finance costs | **(89)** | (362) | **(1,142)** | (1,015) | **—** | — | **—** | (1) | **(1,231)** | (1,378) |
| Amortisation of intangible assets | **(4,376)** | (4,382) | **(892)** | (1,757) | **(62)** | (20) | **(8)** | — | **(5,338)** | (6,159) |
| Depreciation of property, plant and equipment | **(2,813)** | (2,703) | **(310)** | (594) | **(206)** | (90) | **(28)** | (3) | **(3,357)** | (3,390) |
| Write down of obsolescent inventories | **(964)** | (1,370) | **—** | — | **—** | — | **—** | — | **(964)** | (1,370) |
| Reversal of write down of inventories | **1,877** | — | **—** | — | **—** | — | **—** | — | **1,877** | — |
| Loss on disposal of property, plant and equipment | **(416)** | (102) | **(18)** | — | **(30)** | — | **(4)** | — | **(468)** | (102) |
| Research and development expenditure | **(11,735)** | (13,392) | **(3,356)** | (3,826) | **(93)** | (174) | **—** | — | **(15,184)** | (17,392) |
| Income tax | **(23,238)** | (22,300) | **(1,101)** | (2,505) | **(1,597)** | (444) | **(271)** | (28) | **(26,207)** | (25,277) |
| Reportable segment assets | **219,812** | 220,606 | **22,108** | 29,152 | **16,817** | 3,328 | **1,406** | 149 | **260,143** | 253,235 |
| Additions to non-current segment assets | | | | | | | | | | |
| — Property, plant and equipment | **2,166** | 2,194 | **238** | 482 | **159** | 73 | **22** | 2 | **2,585** | 2,751 |
| — Intangible assets | **—** | 3,996 | **—** | 878 | **—** | 133 | **—** | 4 | **—** | 5,011 |
| | **2,166** | 6,190 | **238** | 1,360 | **159** | 206 | **22** | 6 | **2,585** | 7,762 |
| Reportable segment liabilities | **41,351** | 43,659 | **2,578** | 28,140 | **2,073** | 839 | **338** | 71 | **46,340** | 72,709 |
| Customer A | **75,725** | 79,613 | **8,066** | 5,602 | **13,424** | — | **138** | 32 | **97,353** | 85,247 |
| Customer B | **54,369** | 31,397 | **—** | — | **—** | 5,818 | **—** | — | **54,369** | 37,215 |
| Customer C | **38,676** | 41,897 | **—** | — | **—** | — | **1,540** | — | **40,216** | 41,897 |
| | **168,770** | 152,907 | **8,066** | 5,602 | **13,424** | 5,818 | **1,678** | 32 | **191,938** | 164,359 |

*Note:* Revenues of three (2011: three) customers, each of them accounted for 10 percent or more of the Group's revenue for the year ended 31 March 2012 are set out above.

**(c) Geographical information**

The following table sets out information about the geographical lication of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and 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.

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **7,885** | 6,454 | **22** | 53 |
| PRC | **210,379** | 208,147 | **19,612** | 25,829 |
| Germany | **—** | 4,105 | **—** | — |
| Israel | **—** | 118 | **—** | — |
| | **218,264** | 218,824 | **19,634** | 25,882 |

## 4. TURNOVER

Turnover represents the sales value of goods supplied to customers and contract revenue 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:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Digital trunking system | **182,899** | 174,503 |
| VSAT satellite system | **20,127** | 38,329 |
| Systems technologies | **13,424** | 5,818 |
| Other accessory parts and components | **1,814** | 174 |
| | **218,264** | 218,824 |

## 5. OTHER REVENUE

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income *(note a)* | **191** | 97 |
| Government grants *(note b)* | **983** | 219 |
| Business and value-added taxes refund | **2,531** | 14,743 |
| Sundry income | **139** | 126 |
| | **3,844** | 15,185 |

*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".

## 6. PROFIT BEFORE TAXATION

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

### (a) Finance Costs

| | **2012** | 2011 |
|---|---|---|
| | ***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** | 1,378 |

### (b) Other Items

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Auditor's remuneration | **500** | 178 |
| Cost of inventories | **69,561** | 75,743 |
| Amortisation of intangible assets | **5,338** | 6,159 |
| Depreciation of property, plant and equipment | **3,357** | 3,390 |
| Loss on disposal of property, plant and equipment | **468** | 102 |
| Net exchange gain | **(2,087)** | (687) |
| Operating lease charges in respect of leased property | **5,373** | 4,720 |
| Research and development expenditure* | **15,184** | 17,392 |

* Research and development expenditure for the years ended 31 March 2012 included approximately HK$11,550,000 (2011: HK$13,809,000) relating to staff costs.

## 7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

Income tax in the consolidated income statements represents:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax — Hong Kong Profits Tax** | | |
| Provision for the year | **—** | 919 |
| **Current tax — PRC Enterprise Income Tax ("EIT")** | | |
| Provision for the year | **23,548** | 17,119 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | **2,659** | 7,239 |
| | **26,207** | 25,277 |

(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) The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) for the year.

(iv) Under the Corporate Income Tax Law of the PRC (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards.

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 income tax rate of 15% (2011: 15%) for the year ended 31 March 2012.

(v) Under the EIT Law 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$12,804,000 (2011: HK$10,013,000), 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 2012.

## 8. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profits attributable to owners of the Company of approximately HK$63,610,000 (2011: HK$72,853,000) and the weighted average number of 900,000,000 ordinary shares (2011: 820,603,000 ordinary shares) in issue during the year, calculated as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profits attributable to owners of the Company | **63,610** | 72,853 |

| | **2012** | 2011 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary shares at beginning of the year | **900,000** | 10,000 |
| Effect of issue of shares by bonus issue | **—** | 800,000 |
| Effect of issue of shares by pre-IPO share option arrangement | **—** | 10,603 |
| Weighted average number of ordinary shares at end of the year | **900,000** | 820,603 |

**(b) Diluted earnings per share**

The calculation of diluted earnings per share for the years ended 31 March 2012 is based on the profits attributable to owners of the Company of approximately HK$63,610,000 (2011: HK$72,853,000) and the weighted average number of 900,000,000 ordinary shares (2011: 900,000,000 ordinary shares) after adjusting for the effect of all dilutive potential ordinary shares, calculated as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profits attributable to owners of the Company | **63,610** | 72,853 |

| | **2012** | 2011 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares at end of the year | **900,000** | 820,603 |
| Effect of issue of shares by pre-IPO share option arrangement | **—** | 79,397 |
| Weighted average number of ordinary shares (diluted) at end of the year | **900,000** | 900,000 |

## 9. TRADE AND OTHER RECEIVABLES

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **178,100** | 130,500 |
| Advance to suppliers | **1,033** | 10,118 |
| Advance to staff | **720** | 2,727 |
| Loans and receivables | **179,853** | 143,345 |
| Prepayment for acquisition of intangible assets | **3,315** | 3,315 |
| Other prepayments and deposits | **7,117** | 7,464 |
| Contract work in progress | **—** | — |
| | **190,285** | 154,124 |

The ageing analysis of trade receivables based on date of delivery is as follows:

| | **The Group** | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| 0–60 days | **84,294** | 70,714 |
| 61–90 days | **4,530** | 5,086 |
| 91–180 days | **87,405** | 38,813 |
| 181–365 days | **—** | 14,558 |
| Over 365 days | **1,871** | 1,329 |
| | **178,100** | 130,500 |
| Less: Impairment loss on trade receivables | **—** | — |
| | **178,100** | 130,500 |

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

**Trade receivables that are not impaired**

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **176,105** | 114,772 |
| Less than 1 month past due | **1,995** | — |
| 1 to 3 months past due | **—** | 12,032 |
| More than 3 months but less than 12 months past due | **—** | 3,696 |
| More than 12 months past due | **—** | — |
| | **1,995** | 15,728 |
| | **178,100** | 130,500 |

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. For any significant amounts past due, the Group would actively seek repayment from the debtors and the Group would enforce its legal right to the contractually due amount when considered necessary. The majority of the past due balances were due from government organisations in various places. They recognised all payment obligations, although the process of making payment has to follow a strict system integrators, whose customers' source of funding and process of making payment has to follow a strict governmental annual budgeting process and payment approval procedures, which in turn delayed the settlement by the system integrators of the amounts due to the Group. However, there have been no disputes over the balances due from these system integrators; therefore, the directors consider that the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

## 10. TRADE AND OTHER PAYABLES

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **12,666** | 8,229 |
| Accrued salaries | **1,711** | 2,518 |
| Accrued expenses and other payables | **2,249** | 3,973 |
| Payables for acquisition of intangible assets | **—** | 2,871 |
| Financial liabilities measured at amortised costs | **16,626** | 17,591 |
| Deposits received from customers | **653** | 764 |
| Other tax payables | **8,271** | 8,922 |
| | **25,550** | 27,277 |

The ageing analysis of trade payables based on date of receipt of goods is as follows:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| 0–60 days | **2,983** | 3,538 |
| 61–90 days | **871** | 1,197 |
| 91–180 days | **3,200** | 1,247 |
| 181–365 days | **2,741** | 1,581 |
| Over 365 days | **2,871** | 666 |
| | **12,666** | 8,229 |

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

**11.** As at 31 March 2011, the bank overdrafts were borrowed by certain subsidiaries of the Company and were under financial guarantees provided by certain subsidiaries and Mr. Wong Chit On to a bank. During the year ended 31 March 2012, the bank overdrafts were settled. As at 31 March 2012, the Group has undrawn banking facilities in relation to bank overdrafts of approximately HK$Nil (2011: HK$6,978,000).

Bank overdrafts are unsecured facilities and variable rate overdrafts which carry prevailing interest rates ranging from 5.00% to 7.50% (2011: 5.00% to 7.50%) per annum during the year.

## 12. BANK BORROWINGS

The analysis of the carrying amounts of bank borrowings is as follows:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Current liabilities: | | |
| Portion of term loans from a bank due for repayment within one year | **—** | 6,311 |
| Portion of term loans from a bank due for repayment after one year which contain a repayment on demand clause | **—** | 2,371 |
| | **—** | 8,682 |

The bank borrowings due for repayment after one year which contain a repayment on demand clause are classified as current liabilities expected to be settled within one year.

As at 31 March 2012, the bank borrowings were due for repayable as follows:

| | The Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Portion of term loans due for repayment within one year | **—** | 6,311 |
| Term loans due for repayment after 1 year *(note (a))* | | |
| After 1 year but within 2 years | **—** | 1,009 |
| After 2 years but within 5 years | **—** | 1,362 |
| | **—** | 2,371 |
| Total bank loans | **—** | 8,682 |
| Secured | **—** | — |
| Unsecured | **—** | 8,682 |
| | **—** | 8,682 |

(a) The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

(b) All the Group's bank borrowings are denominated in HK$.

(c) All bank borrowings are variable-rate borrowings which carry prevailing interest rates ranging from 5.06% to 6.88% (2011: 5.06% to 6.88%) per annum for the year ended 31 March 2012.

(d) The unsecured bank borrowings were non-revolving facilities and were under financial guarantees provided by certain subsidiaries and Mr. Wong Chit On to a bank.

(e) The Group did not have undrawn banking facilities in relation to bank borrowings as at 31 March 2012 and 2011.

(f) In the opinion of the directors, the carrying amounts of bank borrowings are not significantly different from their fair values at the end of each reporting period.

(g) All bank borrowings were settled during the year ended 31 March 2012.

## 13. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividends declared and paid of HK 3 cents per ordinary share | **27,000** | — |
| Final dividend proposed of HK 4 cents per ordinary share after the end of the reporting period | **48,000** | — |
| | **75,000** | — |

The final dividend proposed after the end of the reporting period is based on 1,200,000,000 ordinary shares (2011: 900,000,000 ordinary shares), being the total number of issued shares at the date of approval of the financial statements.

The final dividend proposed after the end of the reporting period and the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

## 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 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. The Group also 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. The 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 2012, products of the Group were mainly sold in the PRC which accounted for approximately HK$210.4 million or 96.4% of the total revenue. Apart from providing core components, the Group can also provide network design, network construction, installation and testing, maintenance and technical support to the customers.

During the year ended 31 March 2012, the Group derived its revenue substantially from digital trunking system which accounted for approximately HK$182.9 million or 83.8% of its total revenue. The revenue of the Group remained relatively stable for the year ended 31 March 2012 at approximately HK$218.3 million, as compared to that for the year ended 31 March 2011 at approximately HK$218.8 million.

**Use of net proceeds from the company's initial public offering**

On 18 April 2012 (the "Listing Date"), the Company issued 300,000,000 new shares of nominal value of HK$0.01 each in connection with the listing of the Company's shares on the Main Board at The Stock Exchange of Hong Kong Limited (the "Listing"). The Company will apply the net proceeds, after deducting related commission and other related offering expenses, from such new issue in the manner as set out in the Company's prospectus dated 30 March 2012. As at the date of this announcement, such net proceeds have not yet been fully utilised. The successful initial public offering provided the Company with a fully-integrated financial platform to support its future development. In particular, the Group plans to:

- **Focus on expansion of sales network and market share in the specialised communication industry in the PRC.** The Group seeks to deepen and capitalise its relationship with existing customers, including to continue to expand its sales distribution network through system integrators and distributors in order to continue to increase its market share in the PRC and to leverage on the growth in demand for specialised communications products. The Group intends to engage new system integrators and distributors who have strong network and experience in the specialised communications industry to provide products to government bodies.

- **Penetrate overseas market.** The Group intends to explore overseas business opportunities for its products and services, especially in APAC, Brazil and Turkey. The Group plans to establish overseas sales and service network and enhance the Group's corporate and brand image in overseas market by opening representative offices in various locations, engaging in marketing and promotional activities through the internet and media and participating in international exhibitions and seminars.

- **Continue to strengthen research and development capability, and enhance product quality and functionality and network design and to develop new products which cater for the needs of the market.** The Group recognises that research and development plays a crucial role in the specialised communications industry. The Group will further explore the utilisation of the technology in relation to the Group's existing patents. In addition, the Group will also continue to invest in research and development for new technical know-how to develop new products which cater for the changing needs of the market.

- **Promote better awareness of the products and services offered by the Group.** The Group strives to promote better awareness of the Group's products and services by expanding its sales distribution network through its distributors and system integrators and to maintain close contact with its customers of various provinces and cities or potential customers to promote its products and services. In addition, the Group will continue to participate in industry exhibitions and conferences regularly in the PRC and overseas to enhance the awareness of the Group and its products and services.

**Financial review**

*Turnover*

During the year ended 31 March 2012, the Group derived its revenue substantially from digital trunking system. The revenue of the Group remained relatively stable for the year ended 31 March 2012 at approximately HK$218.3 million, as compared to that for the year ended 31 March 2011 at approximately HK$218.8 million. The following table sets forth a breakdown of revenue by product category for the years indicated:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | ***HK$'000*** | *%* | *HK$'000* | *%* |
| Digital trunking system | **182,899** | **83.8** | 174,503 | 79.7 |
| VSAT satellite system | **20,127** | **9.2** | 38,329 | 17.5 |
| Systems technologies | **13,424** | **6.2** | 5,818 | 2.7 |
| Other accessory parts and components | **1,814** | **0.8** | 174 | 0.1 |
| | **218,264** | **100.0** | 218,824 | 100.0 |

The sales of digital trunking system increased by approximately HK$8.4 million or 4.8% from approximately HK$174.5 million for the year ended 31 March 2011 to approximately HK$182.9 million for the year ended 31 March 2012 mainly due to greater demand from the customers. The sales of VSAT satellite system decreased significantly by approximately HK$18.2 million or 47.5% from approximately HK$38.3 million for the year ended 31 March 2011 to approximately HK$20.1 million for the year ended 31 March 2012, primarily as a result of the decrease in sales of core components for the VSAT high speed dynamic digital satellite system due to competition in the satellite market. Revenue derived from system technologies increased significantly by approximately HK$7.6 million or 131.0% from approximately HK$5.8 million for the year ended 31 March 2011 to approximately HK$13.4 million for the year ended 31 March 2012, primarily as a result of two technologies being licensed to the Group's customers for the year ended 31 March 2012, as compared to one technology being licensed for the year ended 31 March 2011. The sales of other accessory parts and components increased by approximately HK$1.6 million or 800.0% from approximately HK$0.2 million for the year ended 31 March 2011 to approximately HK$1.8 million for the year ended 31 March 2012 mainly due to the design fee of approximately HK$1.5 million for designing specialized communication system for system integrators.

*Cost of sales*

Cost of sales of the Group comprises costs of raw materials, labour costs, manufacturing overheads and amortisation of intangible assets. Cost of sales of the Group decreased by approximately HK$6.1 million or 8.1% from approximately HK$75.7 million for the year ended 31 March 2011 to approximately HK$69.6 million for the year ended 31 March 2012, primarily due to greater sales of digital trunking system and system technologies, as reflected by the approximately 4.8% increase and the 131.0% increase in their respective revenues for the year, which generally have a higher profit margin than the other products, and the decrease in the proportion of revenue derived from VSAT satellite system, as reflected by the approximately 47.5% decrease in its revenue for the year, which generally have a lower profit margin.

*Gross profit and gross profit margin*

As a result of the foregoing factors, gross profit of the Group increased by approximately HK$5.6 million or 3.9% from approximately HK$143.1 million for the year ended 31 March 2011 to approximately HK$148.7 million for the year ended 31 March 2012, with gross profit margin increasing from approximately 65.4% for the year ended 31 March 2011 to approximately 68.1% for the year ended 31 March 2012.

*Other revenue*

The other revenue of the Group decreased by approximately HK$11.4 million or 75.0% from approximately HK$15.2 million for the year ended 31 March 2011 to approximately HK$3.8 million for the year ended 31 March 2012. The decrease was primarily due to a delay of the PRC governmental authority in granting the tax refund approval of value-added tax refund of approximately HK$15.0 million as a financial support to the business of specialised communication system in which the Group is operating. Such tax refund was subsequently obtained by two installments in May and June 2012.

*Selling and distribution expenses*

The selling and distribution expenses of the Group decreased by approximately HK$3.6 million or 24.7% from approximately HK$14.6 million for the year ended 31 March 2011 to approximately HK$11.0 million for the year ended 31 March 2012, primarily due to a reduction of marketing and promotion expenses and entertainment expenses in relation to the marketing and promotion of VSAT satellite system as the group considered that the profit margin of such products was so low compared to the Group's other products and thus less sales effort was put in its promotion.

*Administrative expenses*

The administrative expenses of the Group increased by approximately HK$8.5 million or 31.7% from approximately HK$26.8 million for the year ended 31 March 2011 to approximately HK$35.3 million for the year ended 31 March 2012, primarily due to the expenses directly attributable to the Listing amounted to approximately HK$9.3 million.

*Research and development expenditure*

The research and development expenditure of the Group decreased by approximately HK$2.2 million or 12.6% from approximately HK$17.4 million for the year ended 31 March 2011 to approximately HK$15.2 million for the year ended 31 March 2012. The decrease was mainly attributable to the decrease in staff costs from approximately HK$13.8 million to approximately HK$11.6 million as a result of decrease in number of staff in research and development department with higher salary.

*Finance costs*

The finance costs of the Group decreased by approximately HK$0.2 million or 14.3% from approximately HK$1.4 million for the year ended 31 March 2011 to approximately HK$1.2 million for the year ended 31 March 2012 mainly due to the repayment of the majority of bank loans in December 2011 and the remaining bank loans in January 2012. The Group had no outstanding bank borrowings as at 31 March 2012.

*Tax expense*

The tax expense of the Group increased by approximately HK$0.9 million or 3.6% from approximately HK$25.3 million for the year ended 31 March 2011 to approximately HK$26.2 million for the year ended 31 March 2012 mainly due to the combined effect of (i) the increase in the EIT by approximately HK$6.4 million from approximately HK$17.1 million for the year ended 31 March 2011 to approximately HK$23.5 million for the year ended 31 March 2012 was attributable to the distribution of dividend of the Company's PRC subsidiaries and (ii) the decrease in net withholding tax expense by approximately HK$4.6 million from approximately HK$7.4 million for the year ended 31 March 2011 to approximately HK$2.8 million for the year ended 31 March 2012 in relation to the deferred tax liabilities of withholding income tax on dividend to be paid out of the retained earnings not yet distributed by the Company's PRC subsidiaries.

*Profit for the year*

The Group's profits for the year decreased by approximately HK$9.3 million or 12.8% from approximately HK$72.9 million for the year ended 31 March 2011 to approximately HK$63.6 million for the year ended 31 March 2012 as a result of the factors described above.

*Liquidity and capital resources*

The operations of the Group are capital intensive, and its 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 2011 and 2012:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net cash generated from operating activities | **36,334** | 185,091 |
| Net cash used in investing activities | **(4,685)** | (8,109) |
| Net cash used in financing activities | **(41,362)** | (126,932) |

*Operating activities*

Net cash generated from operating activities amounted to approximately HK$36.3 million for the year ended 31 March 2012 compared to approximately HK$185.1 million for the year ended 31 March 2011. The decrease in net cash generated from operating activities was primarily attributable to the decrease in cash generated from operations from approximately HK$203.6 million for the year ended 31 March 2011 to HK$57.2 million for the year ended 31 March 2012. The significant decrease in cash generated from operations was primarily attributable to the changes in working capital including the increase in trade and other receivables of approximately HK$31.6 million and the decrease in amounts due to directors of approximately HK$11.6 million as at 31 March 2012; while the trade and other receivables decreased by approximately HK$84.0 million and the amounts due to directors increased by approximately HK$10.7 million as at 31 March 2011. The net changes in these two components contributed to the significant change in the net cash generated from operating activities.

*Investing activities*

Net cash used in investing activities amounted to approximately HK$4.7 million for the year ended 31 March 2012 compared to approximately HK$8.1 million for the year ended 31 March 2011. The decrease in the net cash used in investing activities was mainly attributable to the absence of prepayment for acquisition of intangible assets of approximately HK$3.3 million which incurred for the year ended 31 March 2011.

*Financing activities*

Net cash used in financing activities amounted to approximately HK$41.4 million for the year ended 31 March 2012 compared to approximately HK$126.9 million for the year ended 31 March 2011. The significant decrease was primarily attributable to the decrease in dividend paid of approximately HK$102.0 million for the year ended 31 March 2012, and partially offset by the increase in repayment of bank borrowings and payment of transaction costs attributable to issue of new shares of approximately HK$15.6 million and HK$4.5 million respectively for the year ended 31 March 2012.

*Bank borrowings*

As of 31 March 2012, the Group had no outstanding bank borrowings.

*Pledge of assets*

As of 31 March 2012, the Group had no assets pledged for securing any credit facilities.

*Contingent liabilities*

As at 31 March 2012, the Group had no material contingent liabilities.

*Employee and remuneration policy*

As at 31 March 2012, the Group had 228 employees. For the year ended 31 March 2012, the staff cost of the Group was approximately HK$49.3 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 proceeds from the Listing

In April 2012, the Group completed the Listing and raised net proceeds of approximately HK$88.6 million after deducting the related commissions and other related offering expenses of HK$10.4 million. As at the date of this announcement, the Company has not yet fully utilised such proceeds. The Company plans to use such proceeds to expand its sales network and market share in the specialised communication industry in the PRC, penetrate overseas market, strengthen the research and development capability, and enhance product quality and functionality and network design and to develop new products which cater for the needs of the market, and promote better awareness of the products and services offered by the Group.

### Final dividend

An interim dividend of HK$27.0 million was declared and fully settled for the year ended 31 March 2012.

After the end of the reporting period and the Listing, the Directors have proposed a final dividend of HK4 cents per ordinary share for the year ended 31 March 2012. The final dividend is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

### Non-adjusting events after the reporting period

On 18 April 2012, the Company was successfully listed on the Main Board of the Stock Exchange following the completion of global offering of 300,000,000 ordinary shares of HK$0.01 each issued at a price of HK$0.33 per share, raising net proceeds of approximately HK$88.6 million after deducting the related commission and other related offering expenses of HK$10.4 million upon Listing.

After the end of the reporting period and the Listing, the directors proposed a final dividend for the year ended 31 March 2012 (subject to approval by the shareholders of the Company at the forthcoming annual general meeting) which has not been recognised as a liability at the end of the reporting period.

**Corporate governance**

Since the Listing Date and up to the date of this announcement, 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 at the Board, comprising the executive Directors and independent non-executive Directors.

**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 since the Listing Date.

**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 since the Listing Date.

**Audit committee**

An audit committee was established by the Company on 22 March 2012 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, Mao Zhigang 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 2012 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 2012 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*

Hong Kong, 26 June 2012

*As at the date of this notice, the executive directors of the Company are Mr. Wong Chit On, Ms. Ni Yun Zi, Mr. Lu Zhijie and Mr. Han Weining and the independent non-executive directors of the Company are Mr. Lam Ying Hung Andy, Mr. Mao Zhigang and Mr. Hu Yunlin.*