SYNERTONE

協同通信集團有限公司

Synertone Communication Corporation

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1613)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2017

The board (the "Board") of directors (the "Directors") of Synertone Communication Corporation (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2017 together with the comparative figures for the year ended 31 March 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 March 2017

	Note	**2017**	2016
		HK$'000	*HK$'000*
Revenue	*4*	**144,677**	106,376
Cost of sales		**(116,594)**	(117,504)
Gross profit/(loss)		**28,083**	(11,128)
Other income	*5*	**58,168**	14,864
Other gains and losses	*5*	**1,463**	(1,588)
Fair value change on derivative financial instruments		**(95,235)**	9,082
Selling and distribution expenses		**(16,966)**	(8,060)
Administrative and other operating expenses		**(94,534)**	(84,107)
Research and development expenditure	*6(c)*	**(32,761)**	(33,477)
Impairment loss of trade receivables	*6(c)*	**(16,733)**	(61,207)
Impairment loss of property, plant and equipment	*6(c)*	**–**	(45,452)
Impairment loss of intangible assets	*6(c)*	**–**	(204,024)
Impairment loss of goodwill	*6(c)*	**(15,693)**	(31,063)
Loss from operations		**(184,208)**	(456,160)
Finance costs	*6(a)*	**(25,005)**	(14,298)
Share of results of an associate		**(137)**	(97)
Loss before taxation	*6*	**(209,350)**	(470,555)
Income tax	*7*	**7,934**	1,646
Loss for the year		**(201,416)**	(468,909)
Attributable to:			
Owners of the Company		**(196,693)**	(469,702)
Non-controlling interests		**(4,723)**	793
		(201,416)	(468,909)
Loss per share	*8*		
— Basic		**HK$(0.06)**	HK$(0.28)
— Diluted		**HK$(0.06)**	HK$(0.28)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	2017	2016
	HK$'000	*HK$'000*
Loss for the year	**(201,416)**	(468,909)
Other comprehensive loss for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	**(34,308)**	(22,486)
Other comprehensive loss for the year, net of tax	**(34,308)**	(22,486)
Total comprehensive loss for the year (net of tax)	**(235,724)**	(491,395)
Attributable to:		
Owners of the Company	**(225,865)**	(493,605)
Non-controlling interest	**(9,859)**	2,210
	(235,724)	(491,395)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**98,703**	80,484
Prepaid lease payments		**8,405**	9,163
Intangible assets		**314,359**	375,584
Goodwill		**185,340**	214,960
Interests in an associate		**2,538**	2,844
Available-for-sale investments		**3,900**	3,900
Derivative financial instruments		**–**	95,235
Prepayment for acquisition of property, plant and equipment	*9*	**8,062**	8,901
		621,307	791,071
Current assets			
Inventories		**35,867**	37,746
Trade and other receivables	*9*	**282,359**	277,994
Prepaid lease payments		**194**	207
Tax recoverable		**90**	–
Cash and cash equivalents		**17,991**	12,421
		336,501	328,368
Current liabilities			
Trade and other payables	*10*	**75,122**	84,229
Bank and other borrowings		**165,240**	137,333
Finance leases payables		**131,884**	71,146
Amount due to a director		**1**	1
Current taxation		**9,202**	10,435
		381,449	303,144
Net current (liabilities) assets		**(44,948)**	25,224
Total assets less current liabilities		**576,359**	816,295

	Note	2017 *HK$'000*	2016 *HK$'000*
Non-current liabilities			
Bank and other borrowings		**–**	3,600
Finance leases payables		**274,190**	355,523
Deferred tax liabilities		**21,293**	32,874
		295,483	391,997
Net assets		**280,876**	424,298
EQUITY			
Share capital		**167,440**	83,720
Reserves		**98,876**	281,216
Equity attributable to owners of the Company		**266,316**	364,936
Non-controlling interests		**14,560**	59,362
Total equity		**280,876**	424,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. GENERAL AND BASIS OF PREPARATION

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

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

The Group is principally engaged in (i) the design, research and development, manufacture and sales of specialised communication systems, equipment and system technologies, (ii) provision of Synertone 1 satellite bandwidth capacity and communication services application, (iii) design, development and sale of automation control systems for industrial use and (iv) design, research and development, manufacture and sales of intelligent building systems including video intercom and surveillance systems for buildings.

Basis of preparation

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

The Group incurred a loss attributable to owners of the Company of approximately HK$196,693,000 during the year ended 31 March 2017, and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$44,948,000. In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

On 23 May 2017, the Company entered into a subscription agreement with an independent third party for the proposed issue of convertible bonds in tranches with an aggregate principal amount of HK$48,000,000 (the "Convertible Bonds"). As at the date of this announcement, the Company has issued Convertible Bonds in a principal amount of HK$14,000,000 to the subscriber.

Taking into account the anticipated cash flows from the issue of the Convertible Bonds and adequate cash flows from its operations, the Directors consider that the Group will have sufficient working capital to enable the Group to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HKFRSs

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

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

3. SEGMENT REPORTING

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

In a manner consistent with the way in which information is reported internally to the chief executive officer of the Company, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

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

Due to the increasing contribution of sales and results from the building intelligence and smart home business and industrial control system business subsequent to the acquisition of respective businesses, the Group aggregated certain operating segments including digital trunking system and VSAT satellite system in the prior year to form a single operating and reportable segment in order to provide better assessment of segment performance. The corresponding reportable segment information for the year ended 31 March 2016 have been restated accordingly.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief executive officer monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, derivative financial instruments and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, and bank and other borrowings and finance lease payables managed directly by the segments with the exception of other corporate liabilities which are unallocated to an individual reportable segment.

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

The measure used for reporting segment profit is adjusted earnings before interest and taxes ("Adjusted EBIT"). To arrive at adjusted earnings before interest and taxes, the Group's profits are further adjusted for interest income, impairment loss of property, plant and equipment, intangible assets and goodwill, change in fair value of derivative financial instruments, share of results of an associate, and items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses.

In addition to receiving segment information concerning Adjusted EBIT, the Group's chief executive officer is provided with segment information concerning revenue (including inter-segment sales), interest income, finance costs, amortisation of prepaid lease payments and intangible assets, depreciation of property, plant and equipment, write down of inventories, reversal of write down of inventories, recovery of impaired trade receivables, impairment loss of property, plant and equipment, intangible assets, goodwill and trade receivables, research and development expenditure, and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's chief executive officer for the purpose for resource allocation and assessment of segment performance for the years ended 31 March 2017 and 2016 is as follows:

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

	2016					
	Communication technology *HK$'000*	Synertone 1 satellite communication *HK$'000*	Building intelligence and smart home *HK$'000*	Industrial control system *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers(note)	41,161	15,308	32,896	17,011	–	106,376
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	41,161	15,308	32,896	17,011	–	106,376
Reportable segment loss (Adjusted EBIT)	(177,154)	(260,971)	(1,185)	(5,258)	–	(444,568)
Interest income	75	2	–	1	–	78
Finance costs	(3,021)	(9,548)	(1,729)	–	–	(14,298)
Amortisation of prepaid lease payments	–	–	(71)	–	–	(71)
Amortisation of intangible assets	(9,041)	(65,300)	(3,219)	(486)	–	(78,046)
Depreciation of property, plant and equipment	(12,125)	–	(1,525)	(66)	–	(13,716)
Write down of inventories	(2,045)	–	–	–	–	(2,045)
Reversal of write down of inventories	2,945	–	–	–	–	2,945
Impairment loss of:					–	
— Property, plant and equipment	(44,872)	(580)	–	–	–	(45,452)
— Intangible assets	–	(204,024)	–	–	–	(204,024)
— Goodwill	(31,063)	–	–	–	–	(31,063)
— Trade receivables	(38,072)	(15,545)	(2,098)	(5,492)	–	(61,207)
Research and development expenditure	(31,531)	(1,946)	–	–	–	(33,477)
Reportable segment assets	240,004	339,899	212,249	217,758	109,529	1,119,439
Additions to non-current segment assets						
— Prepaid lease payments	–	–	9,432	–	–	9,432
— Property, plant and equipment	15,199	–	57,845	516	–	73,560
— Goodwill	–	–	19,019	203,835	–	222,854
— Intangible assets	–	–	40,302	6,332	–	46,634
	15,199	–	126,598	210,683	–	352,480
Reportable segment liabilities	47,386	428,395	129,061	12,956	77,343	695,141

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

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**152,987**	106,376
Elimination of inter-segment revenue	**(8,310)**	–
Consolidated revenue	**144,677**	106,376
Loss		
Reportable segment loss	**(45,764)**	(444,568)
Elimination of inter-segment profits	**–**	–
Reportable segment loss derived from Group's external customers	**(45,764)**	(444,568)
Loss on fair value change on derivative financial instruments	**(95,235)**	–
Impairment loss on goodwill	**(15,693)**	–
Interest income	**881**	78
Finance costs	**(25,005)**	(14,298)
Share of results of an associate	**(137)**	–
Unallocated corporate expenses	**(28,397)**	(11,767)
Consolidated loss before taxation	**(209,350)**	(470,555)
Assets		
Reportable segment assets	**924,425**	1,009,910
Elimination of inter-segment receivables	**–**	–
	924,425	1,009,910
Available-for-sale investments	**3,900**	3,900
Derivative financial instruments	**–**	95,235
Unallocated corporate assets	**29,483**	10,394
Consolidated total assets	**957,808**	1,119,439
Liabilities		
Reportable segment liabilities	**567,800**	617,798
Elimination of inter-segment payables	**–**	–
	567,800	617,798
Amount due to a director	**1**	1
Deferred tax liabilities	**21,293**	32,874
Unallocated corporate liabilities	**87,838**	44,468
Consolidated total liabilities	**676,932**	695,141

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, prepaid lease payments, intangible assets, goodwill and prepayment for acquisition of property, plant and equipment ("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 prepaid lease payments and property, plant and equipment, and the location of the operation to which they are allocated in the case of intangible assets and goodwill. In the case of interests in an associate, it is the location of operations of such associate.

	Revenue from external customers		**Non-current assets**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**–**	–	**4,696**	6,026
People's Republic of China ("PRC")	**143,410**	106,180	**612,711**	685,910
Overseas	**1,267**	196	**–**	–
	144,677	106,376	**617,407**	691,936

(d) Information about products and services

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

(e) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017	2016
	HK$'000	*HK$'000*
Communication technology		
Customer A	**N/A *(note)***	24,424
Customer B	**N/A *(note)***	12,530
Synertone 1 satellite communication		
Customer C	**N/A *(note)***	12,036

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

4. REVENUE

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

	2017	2016
	HK$'000	*HK$'000*
Specialised communication systems and technologies	**11,483**	41,161
Synertone 1 satellite system	**16,378**	15,308
Building intelligence and smart home	**89,132**	32,896
Industrial control system	**27,684**	17,011
	144,677	106,376

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Other income		
Bank interest income from bank deposits *(note a)*	**34**	78
Loan interest income *(note a)*	**847**	–
Government grants *(note b)*	**12,214**	1,597
Recovery of bad debts written off	**9,297**	–
Recovery of impaired trade receivables	**1,103**	–
Reversal of consideration payable *(note c)*	**27,000**	–
Value-added taxes refund *(note d)*	**6,988**	12,052
Sundry income	**685**	1,137
	58,168	14,864
Other gains and losses		
Net exchange gain (loss)	**1,452**	(1,307)
Net gain (loss) on disposal of property, plant and equipment	**11**	(281)
	1,463	(1,588)
	59,631	13,276

Notes:

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

(b) These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to "hi-tech enterprise".

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

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

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

(a) Finance costs

	2017	2016
	HK\$'000	*HK\$'000*
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on bank and other borrowings	**5,852**	4,621
Finance charges on finance lease payables	**19,153**	9,677
	25,005	14,298

(b) Staff costs

	2017	2016
	HK\$'000	*HK\$'000*
Salaries, wages and other benefits	**47,530**	53,523
Contributions to defined contribution retirement plans	**5,320**	3,643
Equity-settled share-based payment expenses	**2,711**	8,067
	55,561	65,233

(c) Other items

	2017	2016
	HK\$'000	*HK\$'000*
Auditor's remuneration	**1,000**	1,180
Cost of inventories	**62,869**	38,400
Amortisation of prepaid lease payments	**200**	71
Amortisation of intangible assets	**55,926**	78,046
Depreciation of property, plant and equipment	**11,365**	13,716
Impairment loss of trade receivables	**16,733**	61,207
Impairment loss of property, plant and equipment	**–**	45,452
Impairment loss of intangible assets	**–**	204,024
Impairment loss of goodwill	**15,693**	31,063
Operating lease charges in respect of leased property	**6,215**	7,240
Research and development expenditure*	**32,761**	33,477

* Research and development expenditure for the year ended 31 March 2017 included approximately HK$8,883,000 (2016: HK$16,521,000) relating to staff costs to which the amounts were also included in the respective total amounts disclosed separately in note 6(b).

7. INCOME TAX CREDIT

	2017	2016
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax ("EIT") *(note (d))*	**1,345**	328
Over-provision in respect of prior year		
PRC EIT	**–**	(13)
Deferred tax		
Origination and reversal of temporary differences	**(9,279)**	(1,961)
	(7,934)	(1,646)

Notes:

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

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

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

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

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Group, 萬科思自控信息(中國)有限公司(Wankesi Automation Information (China) Co., Limited), is exempted from PRC EIT for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit making year was the year 2014.

Other PRC subsidiaries of the Group are subject to PRC EIT at 25% (2016: 25%).

(e) Under the EIT Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% upon government approval of the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$196,693,000 (2016: HK$469,702,000) and the weighted average number of ordinary shares in issue during the year calculated as follows:

	2017	2016
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(196,693)**	(469,702)

Weighted average number of ordinary shares (basic)

	2017	2016
	'000	*'000*
Weighted average number of ordinary shares in issue during the year for the purpose of basic loss per share	**3,246,307**	1,702,822

Note:

For the year ended 31 March 2016, the weighted average number of shares used in the calculation of basic loss per share for the year has been adjusted for the shares issued under rights issue which become effective on 28 April 2016.

(b) Diluted loss per share

	2017	2016
	HK$'000	*HK$'000*
Loss attributable to owners of the Company (diluted)	**(196,693)**	(469,702)

Weighted average number of ordinary shares (diluted)

	2017	2016
	'000	*'000*
Weighted average number of shares	**3,246,307**	1,702,822
Effect of deemed issue of shares from exercise of warrants	**–**	–
Effect of deemed issue of shares under share option scheme	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,246,307**	1,702,822

For the years ended 31 March 2017 and 2016, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and warrants as the exercise prices of such share options and warrants were higher than the average market price per share.

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**201,224**	198,234
Less: Allowance for doubtful debts	**(71,178)**	(61,207)
	130,046	137,027
Bills receivable	**3,216**	349
Loan receivable	**20,000**	–
Other receivables	**57,859**	94,016
Advance to suppliers	**48,750**	25,812
Prepaid value added and other taxes	**8,100**	2,929
Deposits and prepayments	**22,450**	26,762
	290,421	286,895
Reconciliation to the consolidated statement of financial position:		
Non-current	**8,062**	8,901
Current	**282,359**	277,994
	290,421	286,895

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

	2017	2016
	HK$'000	*HK$'000*
0–60 days	**17,801**	19,368
61–90 days	**8,996**	6,040
91–180 days	**31,292**	36,258
181–365 days	**6,646**	58,555
Over 365 days	**136,489**	78,013
	201,224	198,234
Less: Accumulated impairment on trade receivables	**(71,178)**	(61,207)
	130,046	137,027

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

10. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**34,017**	26,036
Bill payables	**6,616**	4,026
Accrued salaries	**4,959**	4,784
Accrued expenses and other payables	**19,899**	40,611
Financial liabilities measured at amortised cost	**65,491**	75,457
Deferred government grant	**2,253**	—
Deposits received from customers	**3,010**	4,681
Other tax payables	**4,368**	4,091
	75,122	84,229

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

	2017	2016
	HK$'000	*HK$'000*
0–60 days	**6,304**	2,472
61–90 days	**4,011**	1,145
91–180 days	**3,606**	1,898
181–365 days	**4,246**	5,962
Over 365 days	**15,850**	14,559
	34,017	26,036

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

11. DIVIDENDS

The directors do not recommend the payment of any dividends in respect of the years ended 31 March 2017 and 2016.

12. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated and reclassified to conform with the current year's presentation.

EXTRACT OF THE AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 March 2017:

In our opinion, the consolidated financial statements give a true and fair view of the consolidation financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the consolidated financial statements, which indicates that the Group incurred a loss of approximately HK$201,416,000 during the year ended 31 March 2017 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$44,948,000. As stated in Note 3, these events and conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

Communication Technology

The Group manufactures and assembles the core components of the digital trunking system and VSAT satellite system at its production facilities in Shenzhen. Customers of the Group's products include system integrators, distributors and end-users.

(a) Digital Trunking System

Digital trunking system is designed to meet the demand from governmental departments, public utility institutions and business enterprises for public safety and emergency communications. 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.

(b) VSAT Satellite System

VSAT satellite system is a component of the broadband satellite communication system, which enables and maintains communication in-motion. The Group provides different solutions to various applications with different VSAT satellite systems, including (i) vehicle satellite communication system; (ii) shipping satellite communication system; and (iii) fixed station satellite communication system.

During the year under review, the Group focused on the development of a wide range of VSAT satellite system products to meet the application requirements of the upgraded Synertone 1 satellite system. The first phase of development has been completed and the new products have been put into commercial trial cases.

On 24 November 2016, the Company entered into a non-exclusive manufacturing agreement with a cooperating partner ("Manufacturing Agreement"), pursuant to which the cooperating partner grants a non-exclusive license to the Company to manufacture certain of its products including the "Capricorn" and "Gemini" VSAT's as set out in the Manufacturing Agreement (the "Products"), and the right to manufacture and sell the Products to the Company's customers using the services of the "Synertone 1" satellite within the territory of the PRC including Hong Kong, Macau and Taiwan. The Company considers that the entering into of the Manufacturing Agreement represents a good opportunity for the Group to fully utilize its manufacturing facility, enhance its product capability and services enabling the Group to further expand its business and revenue base.

Synertone 1 Satellite Communication

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

The Group has commenced the upgrade for Synertone 1 satellite's gateway system since November 2015. The upgrade does not only meet the market requirements, but can also increase the total bandwidth of the Synertone 1 satellite system from 12Gbps to around 20Gbps as well as the uplink and downlink transmission limits. Besides, with the network management system (NMS) to be upgraded also, the Group is capable of developing a new NMS and operations support system (OSS), evolving the business mode, and expanding the market of the Synertone 1 satellite system from B2B business to B2C business.

The upgrade of gateway system is implemented in phases. In April 2016, the Group has set up a demonstration system to do market promotions. The first phase is substantially finished in the fourth quarter of 2016, and by then one third of the total bandwidth and the NMS have been upgraded. With the upgraded bandwidth, the Group can enter market fields which they could not enter before, such as 4G backhaul, connectivity for high speed rail and etc. In phase 2 and 3, the Group will upgrade the rest of the bandwidth, build a comprehensive satellite communication network and evolve the business model from B2B to B2C business. The Group expects that the new system and application can be put into operation in the coming year, and with the enhanced NMS and OSS the Group could attract new customers for delivering various types of internet content and applications, which could drive the growth of the Group's revenue in the future.

Despite the successful launch of China's first self-developed HTS in April 2017, it is expected that it would take a long period of time for testing and trial run before it could be brought into commercial operation. In addition, it would encourage the development of HTS communication applications and expand the customer base. It is the Group's strategy to further promote its leading market position in order to benefit from the rapid growth of the satellite communication market.

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

Industrial Control System

Following the acquisition of entire issued share capital of MOX Products Pty Limited ("MOX") in July 2015, the Group entered into the industrial control business to provide customers with automation control systems for industrial use. Such control systems are widely used in various industries to monitor pressure, temperature, fluid levels, traffic condition etc., including airport control and public utilities control. MOX and its subsidiaries (the "MOX Group") have established a solid customer base ranging from large listed corporations to governmental entities, municipal utilities (fresh water, waste water, gas and city lights) as well as power generation plants.

Building Intelligence and Smart Home Products

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

During the year ended 31 March 2017, the Group completed the further acquisition of 36% equity interest in Sense Field Group Limited ("Sense Field") and its shareholding in Sense Field increased from 49% to 85%. Sense Field and its subsidiaries (the "Sense Field Group") design, develop and manufacture various building intelligence and smart home products in its production facility located at Jiaxing Science City in the Zhejiang province of the PRC. The Sense Field Group has developed an efficient and unified manufacturing control process with ISO9001 certification. One of the Sense Field Group companies has been accredited high technology enterprise status with continuing new products and software developments.

Most of the customers of the Sense Field Group are either property developers or building systems' integrators. These customers include, inter alia, Greentown China Holdings Limited, Longfor Properties Company Limited and China Resources Land Limited. Over the years, the Sense Field Group has established a sales network in not less than 23 first and second tier cities across the PRC, with a total installation base of around 2,000 residential complexes and 1,000 apartments for each complex.

Prospects

The Company is striving for comprehensive market opportunities for its business development through identifying more channels and markets in various ways, and has recently launched new satellite system products in line with the high-speed resources and information services under the fully upgraded Synertone 1 satellite system in the coming year. The Group is capable of providing updated, high-performance satellite communication products and satellite broadband mobile internet services to customers of large-scale industry and governmental and high-end enterprises. Meanwhile, the Group will provide quality satellite broadband wireless services through its qualified operators in Mainland China, Hong Kong, Macau and overseas. It is expected that the Company's continuous innovation and efforts will present it a brand new image in the coming year.

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

Financial review

Turnover

The Group recorded a revenue of approximately HK$144.7 million for the year ended 31 March 2017, representing an increase of approximately HK$38.3 million or 36% as compared to approximately HK$106.4 million for the year ended 31 March 2016.

During the year ended 31 March 2017, the Group derived its revenue substantially from industrial control system and building intelligence and smart home business. The following table sets forth a breakdown of revenue by product category for the years presented:

	2017		2016	
	HK$'000	***%***	*HK$'000*	*%*
Specialised communication systems and technologies	**11,483**	**7.9**	41,161	38.7
Synertone 1 satellite system	**16,378**	**11.3**	15,308	14.4
Building intelligence and smart home	**89,132**	**61.6**	32,896	30.9
Industrial control system	**27,684**	**19.2**	17,011	16.0
	144,677	**100.0**	106,376	100.0

The sales of specialised communication systems and technologies decreased by approximately HK$29.7 million or 72.1% from approximately HK$41.2 million for the year ended 31 March 2016 to approximately HK$11.5 million for the year ended 31 March 2017. It was mainly due to the fluctuant demand from certain major customers as a result of the economic fluctuations and economic reform.

The sales of building intelligence and smart home products surged by approximately HK$56.2 million or 170.8% for the year ended 31 March 2017, mainly because only four months' sales generated from the Sense Field Group were accounted for as the Group's revenue in the previous year, following the Group's acquisition of 49% equity interest in Sense Field in December 2015.

Similarly, the sales of industrial control system products increased by approximately HK$10.7 million or 62.9% for the year ended 31 March 2017 as a result of the increase in sales contributed to the Group following the Group's acquisition of entire issued share capital of MOX in July 2015.

Cost of sales

Cost of sales of the Group comprises costs of raw materials, labour costs, manufacturing overheads and amortisation charge of intangible assets. It decreased by approximately HK$0.9 million or 0.8% from approximately HK$117.5 million for the year ended 31 March 2016 to approximately HK$116.6 million for the year ended 31 March 2017.

Gross profit/(loss) and gross profit/(loss) margin

The Group's gross profit for the year ended 31 March 2017 was approximately HK$28.1 million, as compared with gross loss of approximately HK$11.1 million for the year ended 31 March 2016. There was an increase in the overall gross profit margin from approximately (10.5)% to 19.4%, mainly as a result of (1) gross profit contributed by the building intelligence and smart home business acquired last year; and (2) the substantial drop in the amortisation expense of intangible asset in respect of Synertone 1 satellite bandwidth.

Other income

Other income of the Group amounted to approximately HK$58.2 million for the year ended 31 March 2017, representing an increase of approximately HK$43.3 million or 290.6% from approximately HK$14.9 million for the year ended 31 March 2016. The increase was mainly due to the reversal of consideration payable under the Thrive United S&P Agreement set out in note 5(c) above, the increase in government grants and tax subsidies received by the Group and recovery of bad debts written off in prior years.

Fair value change on derivative financial instruments

The loss on fair value change on derivative financial instruments was approximately HK$95.2 million for the year ended 31 March 2017, as compared with gain on fair value change of approximately HK$9.1 million in the corresponding period last year. Derivative financial instruments represent the currently exercisable purchased call option over 51% voting power over Sense Field, which has been lapsed upon completion of further acquisition of 36% equity interest in Sense Field on 30 March 2017. The fair value at each reporting date was measured using the binomial option pricing model.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately HK$8.9 million or 109.9% from approximately HK$8.1 million for the year ended 31 March 2016 to approximately HK$17.0 million for the year ended 31 March 2017, mainly attributable to the Sense Field Group which was acquired by the Group in the second half of the preceding year.

Administrative and other operating expenses

The administrative and other operating expenses of the Group increased by approximately HK$10.4 million or 12.4% from approximately HK$84.1 million for the year ended 31 March 2016 to approximately HK$94.5 million for the year ended 31 March 2017, mainly attributable to the new business acquisitions which led to an expansion of scale during the year.

Research and development expenditure

The research and development expenditure of the Group reduced by approximately HK$0.7 million or 2.1% from approximately HK$33.5 million for the year ended 31 March 2016 to approximately HK$32.8 million for the year ended 31 March 2017.

Impairment loss of trade receivables

During the year ended 31 March 2017, the Group generally grant a credit period of 30 to 180 days (2016: 30 to 180 days) to its trade customers. A longer credit period of 181 to 365 days (2016: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.

As at 31 March 2017, trade receivables amounting to approximately HK$71.2 million (2016: HK$61.2 million) were individually determined to be impaired which were outstanding beyond its credit period and without any repayment subsequent to the year end date. Impairment loss of approximately HK$16.7 million (2016: HK$61.2 million) was recognised in profit or loss for the year ended 31 March 2017. The Directors will take further possible actions to follow up those impaired receivables.

Impairment loss of goodwill

During the year ended 31 March 2017, goodwill amounting to approximately HK$15.7 million were determined to be impaired, in which HK$3.3 million and HK$12.4 million were attributable to industrial control system cash generating unit and building intelligence and smart home cash generating unit, respectively. The recoverable amount of the cash generating units is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and a long-term average growth rate.

The Directors considered that the goodwill attributable to industrial control system cash generating unit was impaired as the temporary suspension of Synertone 1 satellite system reduced the anticipated cash flows from the future operating synergies through the combination of the automation control systems provided by the MOX Group with the support of Synertone 1 satellite system.

The Directors considered that the goodwill attributable to building intelligence and smart home cash generating unit was impaired as the temporary suspension of Synertone 1 satellite system reduced the anticipated cash flows from the future operating synergies from exploiting the customer base of the Sense Field Group for the Group's existing communication business.

Finance costs

The finance costs of the Group was approximately HK$25.0 million for the year ended 31 March 2017, comprising interest on bank and other borrowings of approximately HK$5.9 million and finance charges of approximately HK$19.1 million on finance lease payables in relation to acquisition of Synertone 1 satellite bandwidth resources and motor vehicles.

Income tax

The tax credit of the Group increased by approximately HK$6.3 million or 382% from approximately HK$1.6 million for the year ended 31 March 2016 to approximately HK$7.9 million for the year ended 31 March 2017, mainly attributable to the increase in deferred tax credit along with the reversal of temporary differences arising on fair value adjustments on property, plant and equipment and intangible assets.

Loss for the year

Given the foregoing factors, the Group recorded the loss attributable to owners of the Company of approximately HK$196.7 million for the year ended 31 March 2017, while the loss attributable to owners of the Company for the preceding financial year was approximately HK$469.7 million.

Capital structure, liquidity and financial resources

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

On 28 April 2016, the Company completed the rights issue of 1,674,400,000 new shares of the Company at the subscription price of HK$0.125 per share ("Rights Issue"). The net proceeds, after deducting all necessary expenses, raised from the Rights Issue were approximately HK$207 million, which were used according to the prospectus of the Company dated 7 April 2016 in which HK$117 million was paid as part of the consideration for further acquisition of 36% equity interest in Sense Field and HK$13 million was reserved as the Retention Funds (as defined in the paragraph headed "Material Acquisitions and Disposals" of this section), and as to the remaining balance of approximately HK$77 million was used as general working capital of the Group including payments for staff salaries, operating expenses and purchase of raw materials.

On 22 September 2014, the Company issued 660,000,000 warrants to CITIC Capital Management Limited at the issue price of HK$0.01 per warrant (restated to 196,666,667 warrants following share consolidation on 24 March 2016 and the Rights Issue completed on 28 April 2016). Each warrant carries the right to subscribe for one warrant share at the subscription price of HK$1.98 (subject to adjustment). Such warrants can be exercised at any time during the exercise period of five (5) years commencing from the date of issue. During the year ended 31 March 2017, the warrants were not yet exercised.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 31 March 2017 was approximately 0.9 (31 March 2016: approximately 1.1). Gearing ratio calculated by total borrowings (comprising bank and other borrowings and finance lease payables) net of cash and cash equivalents, over total equity as at 31 March 2017 was 197% (31 March 2016: 131%).

The following table summarises the cash flows of the Group for the year ended 31 March 2017 together with the comparative figures for the year ended 31 March 2016:

	2017	2016
	HK$'000	*HK$'000*
Net cash used in operating activities	**(14,492)**	(15,945)
Net cash (used in)/generated from investing activities	**(53,241)**	5,074
Net cash generated from/(used in) financing activities	**74,140**	(24,189)

Operating activities

Net cash used in operating activities amounted to approximately HK$14.5 million for the year ended 31 March 2017 compared to approximately HK$15.9 million for the year ended 31 March 2016. The decrease in net cash used in operating activities was mainly attributable to the increase in sales generated from the Sense Field Group.

Investing activities

Net cash used in investing activities amounted to approximately HK$53.2 million for the year ended 31 March 2017 and arose from capital expenditure incurred for upgrade of Synertone 1 satellite system and loan advanced to an independent third party. In contrast, there was net cash generated from investing activities of approximately HK$5.1 million for the year ended 31 March 2016 mainly attributable to the acquisition of subsidiaries.

Financing activities

Net cash generated from financing activities amounted to approximately HK$74.1 million for the year ended 31 March 2017 due to new share capital raised from the Rights Issue, partly offset by the consideration paid to the then non-controlling shareholders of Sense Field for the further acquisition of 36% equity interest in Sense Field. For the year ended 31 March 2016, net cash used in financing activities amounted to approximately HK$24.2 million.

Bank and other borrowings

As at 31 March 2017, the Group had outstanding bank and other borrowings of approximately HK$165.2 million (31 March 2016: HK$140.9 million).

Pledge of assets

As at 31 March 2017, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK$53.7 million (31 March 2016: HK$60.0 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent liabilities

Save as the profit guarantee arising from further acquisition of 36% equity interest of Sense Field described in the section headed "Material Acquisitions and Disposals" below, the Group had no material contingent liabilities as at 31 March 2017.

Material Acquisitions and Disposals

On 29 June 2016, the Group entered into a conditional agreement (the "Further Acquisition Agreement") with the three then shareholders of Sense Field ("Vendors") for the further acquisition of 36% equity interest in Sense Field for a consideration of HK$130 million to be satisfied by cash (the "Further Acquisition"). The Directors are of the view that the Further Acquisition would enable the Group to consolidate and secure control over the Sense Field

Group which would allow it to better diversify its customers' base in the private sector, particularly with regard to property development companies in the PRC. The Further Acquisition has been approved by shareholders of the Company (the "Shareholders") at an extraordinary general meeting held on 16 January 2017 and completed on 30 March 2017.

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

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

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

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

No provision for the above profit guarantee arrangement is recognised in the consolidated financial statements upon completion of the Further Acquisition and as at 31 March 2017 as the Directors considered that: (a) the First-year Target has not been met based on the unaudited consolidated management accounts for the year ended 31 December 2016; and (b) taking into account the unaudited consolidated management accounts for the three months ended 31 March 2017 and the profit forecast for the nine months ending 31 December 2017 prepared by management of the Sense Field Group, the Two-year Target is unlikely to be met and the probability that the Retention Funds being sufficient to cover the Shortfall is remote.

Significant capital expenditure for the year

Save as disclosed above, the Group has no significant capital expenditure commitments as at 31 March 2017.

Risk of Foreign Exchange Fluctuations

Substantially all transactions of the Group are denominated in RMB, United State dollars and Hong Kong dollars and most of the bank deposits are in RMB and Hong Kong dollars to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against United State dollars and Hong Kong dollars during the year, the Directors expect that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure as at 31 March 2017.

Employee and remuneration policy

As at 31 March 2017, the Group had 449 employees (31 March 2016: 465). For the year ended 31 March 2017, the staff costs (including Directors' remuneration) of the Group amounted to approximately HK$55.6 million which decreased by approximately HK$9.6 million or 14.7% as compared to HK$65.2 million for the corresponding period last year, mainly due to the decrease in staff cost attributable to the provision of communication systems business in line with the decrease in sales, which outweighed the effect of the increase in staff cost arising from the completion of the acquisitions of MOX and Sense Field during the preceding financial year.

The Group's employee remuneration policy is determined based on a number of factors such as individual performance, experience and prevailing industry practices. Compensation policies and packages of employees are being reviewed on a yearly basis. In addition to basic salary, performance related remuneration such as bonus may also be awarded to employees based on internal performance evaluation. The Group also adopted a share option scheme and eligible participants of which may be granted the share options to subscribe for the shares of the Company. As at 31 March 2017, the Company had 58,968,180 share options outstanding under the share option scheme.

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

EVENT AFTER THE REPORTING PERIOD

Completion of Subscription Agreement in relation to the issue of Convertible Bonds

On 23 May 2017, the Company and an independent third party (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement"), pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, Convertible Bonds in the principal amount of HK$48,000,000 in tranche(s) in accordance with the written demand(s) by the Company to be made within twelve months immediately after the completion of conditions precedent specified in the Subscription Agreement which took place on 6 June 2017.

The Convertible Bonds shall mature after 2 years from the date of issue, and bear interest at 5% per annum on the outstanding principal thereof payable in arrears annually.

The initial conversion price of the Convertible Bonds is HK$0.16 per conversion share (subject to adjustments), and a maximum of 300,000,000 conversion shares will be allotted and issued to the Subscriber, assuming there is no other change in the issued share capital of the Company between the date of the Subscription Agreement and the full conversion of the Convertible Bonds.

The Convertible Bonds will be issued under the general mandate granted to the Directors by a resolution of the Shareholders passed at the annual general meeting of the Company held on 30 September 2016. The net proceeds arising from the issue of the Convertible Bonds, after deduction of expenses, will amount to approximately HK$47,970,000, which shall be applied towards the Group's general working capital.

As at the date of this announcement, the Company has issued Convertible Bonds in a principal amount of HK$14,000,000 upon receipt of subscription money from the Subscriber after written demand made by the Company. For further details of the issue of Convertible Bonds, please refer to the Company's announcements dated 23 May 2017, 6 June 2017 and 13 June 2017.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 6 September 2017 ("2017 AGM"), the register of members of the Company will be closed from Thursday, 31 August 2017 to Wednesday, 6 September 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfer of Shares accompanied by the relevant share certificate(s) must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 August 2017.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the year ended 31 March 2017.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules. The Directors consider that throughout the year ended 31 March 2017, the Company has fully complied with the applicable code provisions as set out in the CG Code, except for the deviation mentioned below:

Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting and he should also invite the chairman of the audit committee, remuneration committee, nomination committee and any other committees (as appropriate) of the Company to attend. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval.

Mr. Wong Chit On, the chairman of the Board, was not able to attend the annual general meeting of the Company held on 30 September 2016 ("2016 AGM") due to another important business meeting. Mr. Han Weining (executive Director and chief executive officer of the Company) was appointed as the chairman of the 2016 AGM to answer and address questions raised by the Shareholders at the 2016 AGM.

Mr. Lam Ying Hung Andy, the chairman of the independent board committee of the Company was not able to attend the extraordinary general meeting of the Company held on 16 January 2017 approving, among other, the Further Acquisition, due to another important business meeting.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for securities transactions by Directors. All Directors have confirmed, following specific enquiries made by the Company, that they have complied with the required standards set out in the Model Code during the year ended 31 March 2017.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 March 2017 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLICATION OF ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.synertone.net). The annual report of the Company for the year ended 31 March 2017 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

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

Hong Kong, 20 June 2017

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