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 2019

The board (the "**Board**") of directors (the "**Directors**") of Synertone Communication Corporation (the "**Company**", together with its subsidiaries, the "**Group**") announces the audited consolidated results of the Group for the year ended 31 March 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
			(restated)
Continuing operations			
Revenue	*4*	**81,005**	84,771
Cost of sales		**(54,224)**	(57,261)
Gross profit		**26,781**	27,510
Other income	*5*	**9,458**	7,535
Other gains and losses	*5*	**(1,648)**	2,882
Selling and distribution expenses		**(6,416)**	(10,523)
Administrative and other operating expenses		**(70,733)**	(71,864)
Research and development expenditure		**(49,573)**	(69,401)
Impairment loss of trade receivables		**(16,746)**	(12,576)
Impairment loss of intangible assets		**(1,742)**	(47,403)
Impairment loss of goodwill		**(15,000)**	(135,016)
Loss from operations		**(125,619)**	(308,856)
Finance costs	*6(a)*	**(8,389)**	(11,297)
Share of results of an associate		**483**	(1,013)
Impairment loss of interests in an associate		**(1,280)**	(374)
Loss before taxation	*6*	**(134,805)**	(321,540)
Income tax credit	*7*	**2,986**	21,472
Loss for the year from continuing operations		**(131,819)**	(300,068)
Discontinued operation			
Profit/(loss) for the year from discontinued operation	*8*	**338,003**	(249,384)
Profit/(loss) for the year		**206,184**	(549,452)

	Notes	**2019**	2018
		HK$'000	*HK$'000*
			(restated)
Profit/(loss) for the year attributable to owners of the Company:			
From continuing operations		**(129,336)**	(295,741)
From discontinued operation		**338,003**	(249,384)
		208,667	(545,125)
Loss for the year attributable to non-controlling interests:			
From continuing operations		**(2,483)**	(4,327)
From discontinued operation		**–**	–
		(2,483)	(4,327)
Earnings/(loss) per share	*10*		
From continuing and discontinued operations			
– Basic		**5.08**	(16.28)
– Diluted		**5.08**	(16.28)
From continuing operations			
– Basic		**(3.15)**	(8.83)
– Diluted		**(3.15)**	(8.83)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019	2018
	HK$'000	*HK$'000*
Profit/(loss) for the year	**206,184**	(549,452)
Other comprehensive (loss)/income 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	**(1,809)**	37,824
Reclassification adjustment of exchange differences on translation upon disposal of subsidiaries	**(2,077)**	–
Other comprehensive (loss)/income for the year (net of tax)	**(3,886)**	37,824
Total comprehensive income/(loss) for the year	**202,298**	(511,628)
Attributable to:		
Owners of the Company	**205,440**	(508,789)
Non-controlling interests	**(3,142)**	(2,839)
	202,298	(511,628)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**49,584**	99,867
Prepaid lease payments		**8,297**	9,098
Intangible assets		**12,755**	25,131
Goodwill		**50,566**	70,234
Interests in an associate		**467**	1,370
Available-for-sale investments		**–**	3,900
Prepayment for acquisition of property, plant and equipment	*11*	**–**	8,141
		121,669	217,741
Current assets			
Inventories		**41,938**	48,518
Trade and other receivables	*11*	**131,095**	285,739
Prepaid lease payments		**201**	215
Cash and cash equivalents		**10,599**	6,877
		183,833	341,349
Current liabilities			
Trade and other payables	*12*	**57,648**	100,851
Bank and other borrowings		**104,221**	171,655
Finance leases payable		**551**	190,112
Amount due to a director		**1**	1
Current taxation		**–**	1,720
		162,421	464,339
Net current assets/(liabilities)		**21,412**	(122,990)
Total assets less current liabilities		**143,081**	94,751

	2019	2018
	HK$'000	*HK$'000*
Non-current liabilities		
Finance leases payable	**124**	223,419
Convertible bonds	**–**	18,467
Deferred tax liabilities	**3,646**	7,234
	3,770	249,120
Net assets/(liabilities)	**139,311**	(154,369)
Capital and reserves		
Share capital	**215,091**	167,440
Reserves	**(83,696)**	(333,530)
Equity attributable to owners of the Company	**131,395**	(166,090)
Non-controlling interests	**7,916**	11,721
Total equity	**139,311**	(154,369)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. GENERAL AND BASIS OF PREPARATION

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

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

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

During the current year, the Group discontinued the business of provision of Synertone 1 satellite bandwidth capacity and communication service application along with the disposal of subsidiaries (see note 8).

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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**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**").

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfer of Investment Properties

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

HKFRS 9 Financial instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

(i) Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

The Directors reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed below.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including cash and cash equivalents and trade and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises a loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings such as debtors' aging.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECL unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECL.

Significant increase in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in a financial instrument's external (if available) or internal credit rating;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant change in the debtor's ability to meet its debt obligations; and

- significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of the debtors.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 April 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. Except for trade receivables as described below, no additional credit loss allowance has been recognised as the amount involved was insignificant.

(ii) Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018:

	Available-for-sale investments *HK$'000*	**Financial assets at FVTOCI** *HK$'000*	**Trade receivables** *HK$'000*	**Accumulated losses** *HK$'000*	**Non-controlling interests** *HK$'000*
Carrying amount previously reported under under HKAS 39 as at 31 March 2018	3,900	–	106,182	(1,138,261)	11,721
Effect arising from initial application of HKFRS 9:					
– Reclassification *(note a)*	(3,900)	3,900	–	–	–
– Recognition of additional loss allowance *(note b)*	–	–	(8,363)	(7,700)	(663)
Carrying amount under HKFRS 9 as at 1 April 2018	–	3,900	97,819	(1,145,961)	11,058

Notes:

(a) At the date of initial application of HKFRS 9, the Group's unlisted equity investment of HK$3,900,000 was reclassified from available-for-sale investment to financial asset at FVTOCI. No fair value change relating to the equity instrument previously carried at cost less impairment was adjusted to financial asset at FVTOCI and accumulated losses as at 1 April 2018 as the amount involved was insignificant.

(b) At the date of initial application of HKFRS 9, an additional loss allowance of HK$8,363,000 was charged against trade receivables, with the corresponding adjustments of HK$7,700,000 and HK$663,000 recognised against opening accumulated losses and non-controlling interests, respectively.

Loss allowances for trade receivables as at 31 March 2018 reconciled to the opening loss allowances as at 1 April 2018 are as follows:

	HK$'000
At 31 March 2018	
– HKAS 39	90,234
Amounts remeasured through opening	
– accumulated losses	7,700
– non-controlling interests	663
At 1 April 2018	
– HKFRS 9	98,597

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at date of initial application is recognised in opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed as at 1 April 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11.

(i) Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date;

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability is recognised when the Group has an obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(ii) Summary of effects arising from initial application of HKFRS 15

The Group recognises revenue from the sale of specialised communication systems and equipment, industrial control system products and building intelligence and smart home products. Under HKFRS 15, revenue is recognised at a point in time when the control of the goods has been transferred to the customers being when the goods have been delivered to the customer's specific location.

The following adjustment was made to the amount recognised in note to the consolidated statement of financial position as at 1 April 2018. Line items that were not affected by the changes have not been included:

	Carrying amount previously reported as at 31 March 2018	**Reclassification**	**Carrying amount under HKFRS 15 as at 1 April 2018**
	HK$'000	***HK$'000***	***HK$'000***
Trade and other payables			
Deposits received from customers	7,331	(7,331)	–
Contract liabilities	–	7,331	7,331

Note: At the date of initial application of HKFRS 15, deposits received from customers of HK$7,331,000 were reclassified to contract liabilities.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

Summary of the effects of the changes in accounting policies arising from the application of new HKFRSs

The following table summarises the impact of the initial application of HKFRS 9 and HKFRS 15 on the Group's consolidated statement of financial position as at 1 April 2018 for each of the line items affected:

	As at 31 March 2018	**Impact on initial application of HKFRS 9**	**Impact on initial application of HKFRS 15**	**As at 1 April 2018**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Audited)			*(Restated)*
Non-current assets				
Available-for-sale investments	3,900	(3,900)	–	–
Financial assets at FVTOCI	–	3,900	–	3,900
Current assets				
Trade and other receivables	285,739	(8,363)	–	277,376
Equity				
Accumulated losses	(1,138,261)	(7,700)	–	(1,145,961)
Non-controlling interests	11,721	(663)	–	11,058

3. SEGMENT REPORTING

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

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.
Building Intelligence and Smart Home:	Provision of (i) video intercom system and security alarm solutions for residential complexes; and (ii) smart home automation systems for new and existing households.
Industrial Control System:	Provision of (i) automation hardware and software products, information systems platforms, as well as (ii) the industrial and monitoring and scheduling management system solutions for municipal utilities industry.

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

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, bank and other borrowings and finance lease payables managed directly by the segments with the exception of convertible bonds payable and other corporate liabilities which are unallocated to an individual reportable segment.

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

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

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

Information regarding the Group's reportable segments as provided to the Group's chief executive officer for the purpose for resource allocation and assessment of segment performance for the years ended 31 March 2019 and 2018 is as follows:

Continuing operations

	2019				
	Communication technology *HK$'000*	Building intelligence and smart home *HK$'000*	Industrial control system *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers	1,733	41,996	37,276	–	81,005
Inter-segment revenue	26	10,184	115	–	10,325
Reportable segment revenue	1,759	52,180	37,391	–	91,330
Reportable segment loss (Adjusted EBIT)	(72,131)	(11,722)	(8,048)	–	(91,901)
Interest income	4	5	219	2,703	2,931
Finance costs	–	(4,979)	–	(3,410)	(8,389)
Amortisation of prepaid lease payments	–	(208)	–	–	(208)
Amortisation of intangible assets	–	(8,078)	(1,206)	–	(9,284)
Depreciation of property, plant and equipment	(4,737)	(4,099)	(27)	(947)	(9,810)
Write down of inventories	(5,078)	–	–	–	(5,078)
Impairment loss of:					
– Goodwill	–	–	(15,000)	–	(15,000)
– Intangible assets	–	(1,742)	–	–	(1,742)
– Trade receivables	(10,956)	(3,959)	(1,831)	–	(16,746)
Research and development expenditure	(40,890)	(8,683)	–	–	(49,573)
Reportable segment assets	27,243	198,678	80,366	–	306,287
Addition to non-current segment assets – Property, plant and equipment	1,159	–	41	20	1,220
Reportable segment liabilities	4,814	140,406	77,712	–	222,932

	2018 (restated)				
	Communication technology *HK$'000*	Building intelligence and smart home *HK$'000*	Industrial control system *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers	18,554	40,382	25,835	–	84,771
Inter-segment revenue	351	7,933	36	–	8,320
Reportable segment revenue	18,905	48,315	25,871	–	93,091
Reportable segment loss (Adjusted EBIT)	(81,557)	(25,106)	(2,638)	–	(109,301)
Interest income	7	–	2	1,000	1,009
Finance costs	–	(4,558)	(33)	(6,706)	(11,297)
Amortisation of prepaid lease payments	–	(204)	–	–	(204)
Amortisation of intangible assets	(7,166)	(7,969)	(1,186)	–	(16,321)
Depreciation of property, plant and equipment	(4,840)	(4,903)	(38)	(1,342)	(11,123)
Write down of inventories	(1,621)	–	–	–	(1,621)
Impairment loss (recognised)/reversed of:					
– Goodwill	(2,113)	(6,098)	(126,805)	–	(135,016)
– Intangible assets	(47,403)	–	–	–	(47,403)
– Trade receivables	(9,664)	(3,080)	168	–	(12,576)
Research and development expenditure	(59,331)	(10,070)	–	–	(69,401)
Reportable segment assets	128,235	161,209	100,224	–	389,668
Addition to non-current segment assets					
– Property, plant and equipment	4,296	268	27	7	4,598
Reportable segment liabilities	19,574	139,238	11,529	–	170,341

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

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Revenue		
Reportable segment revenue	**91,330**	93,091
Elimination of inter-segment revenue	**(10,325)**	(8,320)
Consolidated revenue	**81,005**	84,771
Loss		
Reportable segment loss	**(91,901)**	(109,301)
Elimination of inter-segment profits	**–**	–
Reportable segment loss derived from Group's external customers	**(91,901)**	(109,301)
Impairment loss of goodwill	**(15,000)**	(135,016)
Impairment loss of intangible assets	**(1,742)**	(47,403)
Interest income	**2,931**	1,009
Finance costs	**(8,389)**	(11,297)
Share of results of an associate	**483**	(1,013)
Impairment loss of interests in an associate	**(1,280)**	(374)
Unallocated corporate expenses	**(19,907)**	(18,145)
Consolidated loss before taxation	**(134,805)**	(321,540)
Assets		
Reportable segment assets		
– Continuing operations	**306,287**	389,668
– Discontinued operation	**–**	66,913
Elimination of inter-segment receivables	**(65,381)**	–
	240,906	456,581
Available-for-sale investments	**–**	3,900
Unallocated corporate assets	**64,596**	98,609
Consolidated total assets	**305,502**	559,090

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Liabilities		
Reportable segment liabilities		
– Continuing operations	**222,932**	170,341
– Discontinued operation	**–**	421,413
Elimination of inter-segment payables	**(65,381)**	–
	157,551	591,754
Amount due to a director	**1**	1
Convertible bonds payable	**–**	18,467
Deferred tax liabilities	**3,646**	7,234
Unallocated corporate liabilities	**4,993**	96,003
Consolidated total liabilities	**166,191**	713,459

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, prepaid lease payments, intangible assets, goodwill, interests in an associate and prepayment for acquisition of property, plant and equipment. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment, prepaid lease payments and prepayment for acquisition of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operator to which they are allocated. In the case of interests in an associate, it is the location of operations of such associate.

	Revenue from external customers		**Non-current assets**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)
Continuing operations				
Hong Kong (place of domicile)	**–**	–	**816**	3,361
PRC	**80,540**	84,771	**120,853**	195,714
Overseas	**465**	–	**–**	–
	81,005	84,771	**121,669**	199,075

(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:

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Communication technology		
Customer A	**N/A (note)**	17,152

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

4. REVENUE

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

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Specialised communication systems and technologies	**1,733**	18,554
Building intelligence and smart home	**41,996**	40,382
Industrial control system	**37,276**	25,835
	81,005	84,771

Revenue from sale of products is recognised at a point in time when the customer obtains control of the goods.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Other income		
Interest income on bank deposits	**236**	9
Interest income on loan receivables	**2,695**	1,000
Government grants *(note a)*	**2,621**	2,328
Value-added taxes refund *(note b)*	**2,928**	3,036
Sundry income	**978**	1,162
	9,458	7,535
Other gains and losses		
Net exchange (loss)/gain	**(1,779)**	2,397
Net gain on disposal of property, plant and equipment	**131**	485
	(1,648)	2,882
	7,810	10,417

Notes:

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

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

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Interest expense on bank and other borrowings	**7,214**	9,203
Interest expense on convertible bonds payable	**1,085**	1,948
Finance charges on finance leases payable	**90**	146
	8,389	11,297

(b) Staff costs (including Directors' emoluments)

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Salaries, wages and other benefits	**24,302**	37,047
Contributions to defined contribution retirement plans	**3,412**	4,776
Equity-settled share-based payment expenses	**–**	841
	27,714	42,664

(c) Other items

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Auditor's remuneration	**1,000**	1,000
Cost of inventories recognised as expense	**47,412**	46,922
Write-down of inventories	**5,078**	1,621
Amortisation of intangible assets	**9,284**	16,321
Amortisation of prepaid lease payments	**208**	204
Depreciation of property, plant and equipment	**9,810**	11,123
Impairment loss of goodwill *(note i)*	**15,000**	135,016
Impairment loss of intangible assets *(note i)*	**1,742**	47,403
Operating lease charges in respect of leased property	**4,926**	4,409
Research and development expenditure *(note ii)*	**49,573**	69,401

Notes:

(i) Based on management's assessment and by reference to the value-in-use calculations performed by an independent appraisal firm, the Group recognised impairment losses of (1) goodwill of HK$15,000,000 (2018: HK$126,805,000), nil (2018: HK$6,098,000) and nil (2018: HK$2,113,000) attributable to industrial control system cash generating unit, building intelligence and smart home cash generating unit and safe communication technology cash generating unit, respectively; and (2) intangible asset of HK$1,742,000 (2018: nil) and nil (2018: HK$47,403,000) in respect of patents and software and trademarks attributable to building intelligence and smart home cash generating unit and safe communication technology cash generating unit, respectively.

Goodwill attributable to industrial control system cash generating unit was impaired as there has been a slight decrease in actual gross margin due to keen market competition during the current year.

(ii) Research and development expenditure for the year ended 31 March 2019 included approximately HK$4,916,000 (2018: HK$7,656,000) 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

	2019	2018
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Current tax		
PRC Enterprise Income Tax ("**EIT**") *(note d)*	**11**	9
Under/(Over)-provision in respect of prior year		
PRC EIT	**3**	(5,379)
Deferred tax		
Origination and reversal of temporary differences	**(3,000)**	(16,102)
	(2,986)	(21,472)

Notes:

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

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

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

(d) One of the PRC subsidiaries of the Group, 協同通信技術有限公司 (Synertone Communication Technology Limited), 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 a rate of 25% (2018: 25%).

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

8. DISCONTINUED OPERATION

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

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

The results of Synertone 1 satellite communication business for the period from 1 April 2018 to 15 November 2018 have been presented as a discontinued operation in the Group's consolidated statement of profit or loss for the current year, and the comparative figures in the preceding year has been restated accordingly.

	Period from 1 April 2018 to 15 November 2018 *HK$'000*	Year ended 31 March 2018 *HK$'000*
Revenue	–	8,992
Cost of sales	–	(21,482)
Gross loss	–	(12,490)
Other income	1,932	1,986
Other gains and losses	362,786	3,937
Selling and distribution expenses	(1,667)	(4,681)
Administrative and other operating expenses	(3,714)	(4,651)
Impairment loss of trade receivables	(516)	–
Impairment loss of intangible assets	–	(215,156)
Profit/(loss) from operations	358,821	(231,055)
Finance costs	(10,752)	(18,144)
Profit/(loss) before taxation	348,069	(249,199)
Income tax expense	–	(185)
Profit/(loss) for the period/year	348,069	(249,384)
Loss on disposal of subsidiaries	(10,066)	–
Profit/(loss) for the period/year from discontinued operation	338,003	(249,384)

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

	2019	2018
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**1,049**	1,159
Amortisation of intangible assets	**–**	19,363
Finance charges on finance leases payable	**10,752**	18,144
Interest income	**(1)**	(3)
Net exchange (loss)/gain	**(13,300)**	3,937
Gain on disposal of property, plant and equipment *(note)*	**3,637**	–
Gain on derecognition of finance leases payable *(note)*	**372,449**	–
Operating lease charges in respect of leased property	**1,167**	2,103
Staff costs		
– Salaries, wages and other benefits	**1,557**	2,143
– Contributions to defined contribution retirement plans	**193**	125

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

In accordance with the relevant agreements, USD5,000,000 out of the Outstanding Amount has been settled by the Group by transfer of the ownership of the upgraded hub system installed at the gateway stations (the "**Transfer**") to IPSTARCO. Included in the gain on disposal of property, plant and equipment is HK$3,607,000 attributable to the gain arising from the Transfer to IPSTARCO.

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

The analysis of assets and liabilities of Vastsuccess and Synertone Satellite at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	6,475
Financial asset at FVTOCI	3,900
Inventories	30
Trade and other receivables	18,195
Cash and cash equivalents	611
Trade and other payables	(5,409)
Finance lease payables	(9,889)
Tax payables	(1,553)
Deferred tax liabilities	(217)
	12,143
Release of translation reserve	(2,077)
Loss on disposal of subsidiaries	(10,066)
Total consideration	–

9. DIVIDENDS

During the year ended 31 March 2019, no dividend has been paid or proposed by the Company, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

10. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

(a) Basic earnings (loss)/per share

The calculation of the basic earnings/(loss) per share is based on the profit attributable to owners of the Company of HK$208,667,000 (2018: loss attributable to owners of the Company of HK$545,125,000) and the weighted average number of 4,110,635,000 (2018: 3,348,800,000) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of the diluted earnings (loss) per share attributable to owners of the Company is based on the following data:

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit/(loss) attributable to owners of the Company for the purpose of diluted earnings/(loss) per share	**208,667**	(545,125)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**4,110,635**	3,348,800
Adjustment for warrants	**–**	–
Adjustment for share options	**–**	–
Adjustment for convertible bonds	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**4,110,635**	3,348,800

For the years ended 31 March 2019 and 2018, the computation of diluted earnings (loss) per share did not assume the exercise of the Company's outstanding share options and warrants as the exercise prices of such share options and warrants were higher than the average market price per share.

For the years ended 31 March 2019 and 2018, the computation of diluted earnings (loss) per share did not assume the conversion of the Company's outstanding convertible bonds (at beginning of the reporting period or date of issue where applicable) as the conversion of convertible bonds to ordinary shares would have anti-dilutive effect.

For continuing operations

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit/(loss) for the year attributable to owners of the Company	**208,667**	(545,125)
Less: (Profit)/loss for the year from discontinued operation	**(338,003)**	249,384
Loss for the purposes of basic and diluted loss per share from continuing operations	**(129,336)**	(295,741)

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

For discontinued operation

Basic and diluted earnings per share for the discontinued operation is HK8.23 cents per share (2018: basic and diluted loss of HK7.45 cents per share), based on the profit for the year from discontinued operation of HK$338,003,000 (2018: loss for the year from discontinued operation of HK$249,384,000) and the denominators detailed above for both basic and diluted earnings/(loss) per share.

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables *(notes a, b)*	**141,393**	196,416
Less: Loss allowance	**(93,451)**	(90,234)
	47,942	106,182
Bills receivable	**–**	1,324
Loan receivables	**55,000**	20,000
Other receivables	**15,672**	46,806
Due from non-controlling shareholders of a subsidiary *(note c)*	**–**	72,061
Advances to suppliers	**–**	21,648
Prepaid value-added and other taxes	**63**	8,141
Prepayments for acquisition of property, plant and equipment	**–**	8,141
Other prepayments and deposits	**12,418**	9,577
	131,095	293,880
Analysed for reporting purposes as:		
Non-current assets	**–**	8,141
Current assets	**131,095**	285,739
	131,095	293,880

Notes:

(a) For the year ended 31 March 2019, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (31 March 2018: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2018: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.

(b) The aging analysis of trade receivables based on invoice date is as follows:

	2019	2018
	HK$'000	*HK$'000*
0 – 60 days	**12,109**	29,574
61 – 90 days	**2,966**	3,162
91 – 180 days	**9,732**	8,210
181 – 365 days	**6,849**	10,539
Over 365 days	**109,737**	144,931
	141,393	196,416
Less: Loss allowance	**(93,451)**	(90,234)
	47,942	106,182

(c) The amount represents receivable from the non-controlling shareholders of Sense Field Group Limited ("**Sense Field**", together with its subsidiaries, "**Sense Field Group**"), an indirect 85%-owned subsidiary of the Company, in respect of the adjustment to the consideration for the Group's further acquisition of 36% equity interest in Sense Field based on the profit guarantee requirements stipulated in the relevant sale and purchase agreement. During the year ended 31 March 2019, the amount was fully settled.

12. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**19,031**	37,505
Bill payables	**5,712**	6,365
Accrued salaries	**3,268**	8,147
Accrued expenses and other payables	**16,827**	37,875
Financial liabilities measured at amortised cost	**44,838**	89,892
Deferred government grant	**–**	2,496
Contract liabilities *(note)*	**12,156**	–
Deposits received from customers *(note)*	**–**	7,331
Other tax payables	**654**	1,132
	57,648	100,851

Note: Deposits received from customers in relation to sales of industrial control system and building intelligence and smart home products were reclassified as contract liabilities upon the initial application of HKFRS 15 (see Note 2).

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

	2019	2018
	HK$'000	*HK$'000*
0 – 60 days	**6,002**	14,229
61 – 90 days	**647**	948
91 – 180 days	**2,025**	1,610
181 – 365 days	**680**	5,073
Over 365 days	**9,677**	15,645
	19,031	37,505

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2019 have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on the preliminary announcement.

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 knowhow 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 (i) design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) design, development and sale of automation control systems for industrial uses, and (iii) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

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. In light of the lack of customer demand as well as the discontinuation of the Group's Synertone 1 satellite communication business during the current year as detailed below, the Group may undergo future plans to explore new business strategies, or to consider termination or disposal of the business.

Industrial control system

MOX Products Pty Limited, which is wholly-owned by the Group, and its subsidiaries (the "**MOX Group**"), carry out the industrial control system 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. The MOX Group have established a solid customer base ranging from large listed corporations to governmental entities, municipal utilities (fresh water, sewage, gas and city lights) as well as power generation plants. Despite keen market competition in the current year, the MOX Group achieved a sales growth by penetrating its market presence in northern and western provinces of the PRC with large industry base.

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.

The Sense Field Group is principally engaged in the design, development and manufacturing various building intelligence and smart home products in its production facility located at Jiaxing Science City in the Zhejiang province of the PRC. The Sense Field Group has developed an efficient and unified manufacturing control process with ISO9001 certification. A subsidiary of the Sense Field Group has been accredited high technology enterprise status with continuing new products and software developments.

Most of the customers of the Sense Field Group are 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.

During the year under review, the sales of the Group's "MOX" brand video intercom and surveillance system products remained stable along with the real estate market of China that continually drives demand of its products.

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

Synertone 1 satellite communication

In October 2018, (i) the Company and Vastsuccess entered into the Settlement Agreement with IPSTARCO and (ii) Vastsuccess entered into the Transfer Agreement with IPSTARCO, pursuant to which, among others, the relevant agreements in respect of the exclusive right to use Synertone 1 satellite bandwidth resources granted by IPSTARCO to the Group had been terminated as of December 2017 and the Group should settle the Outstanding Amount of USD6,277,419.54 due to IPSTARCO.

In November 2018, the Group entered into the share transfer agreements with an independent third party (the "**Transferee**") to dispose of the entire issued share capital (the "**Share Transfer**") of Vastsuccess and Synertone Satellite to the Transferee. The consideration for the Share Transfer was satisfied by the fulfilment by the Transferee of the payment obligations to the IPSTARCO the balance of the Outstanding Amount after the transfer of the upgraded hub system to be determined pursuant to the Settlement Agreement and the Transfer Agreement, subject to a ceiling of USD2,000,000.

Upon completion of the aforesaid agreements on 15 November 2018, the Group discontinued the operation of its Synertone 1 satellite system business.

Future investment opportunities

On 28 September 2018, the Company, as purchaser, entered into a non-legally binding letter of intent with a vendor, in relation to the possible acquisition in a controlling interest in Dolphin International Technology Co., Limited (海豚國際科技有限公司) ("**Dolphin International**"). Dolphin International is an innovative high-tech enterprise, focusing on the integration of the big data cloud platform of the internet by using the smart shared hardware, principally engaged in the provision of smart power bank rental and information dissemination services across China. The relevant due diligence review in relation to Dolphin International is currently in progress as of the date of this announcement. Subject to the results of such due diligence review and further negotiations between the parties on the price, the shareholding percentage to be acquired, and other terms and conditions, the Company and the vendor shall enter into a formal and binding agreement in respect of the possible acquisition of Dolphin International.

FINANCIAL REVIEW

Turnover

The Group recorded a revenue of approximately HK$81.0 million for the year ended 31 March 2019, representing a decrease of approximately HK$3.8 million or 4.5% as compared to approximately HK$84.8 million for the year ended 31 March 2018.

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

	2019		2018	
	HK$'000	***%***	*HK$'000*	*%*
Specialised communication systems and technologies	**1,733**	**2.1**	18,554	21.9
Building intelligence and smart home	**41,996**	**51.9**	40,382	47.6
Industrial control system	**37,276**	**46.0**	25,835	30.5
	81,005	**100.0**	84,771	100.0

The slight decrease in the Group's revenue for the year ended 31 March 2019 was mainly attributable to the decrease in sales of specialised communication systems and technologies, the effect of which was partly offset by the increase in sales generated by building intelligence and smart home business and industrial control system business.

Cost of sales

Cost of sales of the Group consists of costs of raw materials, labour costs, manufacturing overheads and amortization charge of intangible assets. It decreased by approximately HK$3.1 million or 5.4% from approximately HK$57.3 million for the year ended 31 March 2018 to approximately HK$54.2 million for the year ended 31 March 2019.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 March 2019 was approximately HK$26.8 million, representing a decrease of approximately HK$0.7 million or 2.6% from approximately HK$27.5 million for the year ended 31 March 2018. In the meantime, gross profit margin increased slightly from 32.5% for the year ended 31 March 2018 to 33.1% for the year ended 31 March 2019.

Other income

Other income of the Group amounted to approximately HK$9.5 million for the year ended 31 March 2019, representing an increase of approximately HK$2.0 million or 26.7% from approximately HK$7.5 million for the year ended 31 March 2018. The increase was mainly due to the increase in interest income on loan receivables that were non-recurring in nature.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately HK$4.1 million or 39.0% from approximately HK$10.5 million for the year ended 31 March 2018 to approximately HK$6.4 million for the year ended 31 March 2019.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK$1.2 million or 1.7% from approximately HK$71.9 million for the year ended 31 March 2018 to approximately HK$70.7 million for the year ended 31 March 2019, mainly attributable to reduced staff costs as a result of the overall decrease in the Group's headcount.

Research and development expenditure

The research and development expenditure of the Group reduced by approximately HK$19.8 million or 28.5% from approximately HK$69.4 million for the year ended 31 March 2018 to approximately HK$49.6 million for the year ended 31 March 2019.

Impairment loss of trade receivables

During the year ended 31 March 2019, the Group generally grant a credit period of 30 to 180 days (2018: 30 to 180 days) to its trade customers. A longer credit period of 181 to 365 days (2018: 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 2019, trade receivables amounting to approximately HK$93.5 million (31 March 2018: approximately HK$90.2 million) were impaired based on an expected credit loss model. The assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, current conditions at the reporting date as well as the forecast of future conditions. Impairment loss of approximately HK$16.7 million (2018: approximately HK$12.6 million) was recognised in profit or loss for the year ended 31 March 2019. The Directors will take further possible actions to follow up those impaired receivables.

Impairment loss of goodwill

During the year ended 31 March 2019, goodwill attributable to industrial control system cash generating unit amounting to approximately HK$15.0 million was determined to be impaired. 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 there has been a slight decrease in actual gross margin due to keen market competition during the current year.

Finance costs

The finance costs of the Group was approximately HK$8.4 million for the year ended 31 March 2019, comprising interest on bank and other borrowings, finance charges on finance leases payable and effective interest expense on convertible bonds payable. The decrease in finance costs of approximately HK$2.9 million or 25.7% from approximately HK$11.3 million for the year ended 31 March 2018 was due to the decrease in effective interest on convertible bonds payable as a result of the early conversion of the convertible bonds into shares during the year.

Income tax

The tax credit of the Group decreased by approximately HK$18.5 million or 86.1% from approximately HK$21.5 million for the year ended 31 March 2018 to approximately HK$3.0 million for the year ended 31 March 2019, and was mainly attributable to decrease in deferred tax credit arising from reversal of temporary differences in relation to intangible assets acquired from business combinations in prior years.

Profit from discontinued operation

Profit from discontinued operation of the Group amounted to HK$338.0 million for the year ended 31 March 2019, as compared to a loss from discontinued operation of approximately HK$249.4 million for the last year. Upon completion of the disposal of Vastsuccess and Synertone Satellite as detailed above, the Group discontinued the operation of its Synertone 1 satellite communication business. Accordingly, the results of the Group attributable to that business were reclassified and presented as discontinued operation in the Group's consolidated statement of profit or loss.

The significant profit recorded in the current year was mainly due to (1) an one-off gain on derecognition of finance leases payable of approximately HK$372.4 million (which is non-cash in nature) in relation to the bandwidth resources fees for the remaining service years as a result of the early termination of the finance lease arrangement in connection with the exclusive right to use Synertone 1 satellite bandwidth; and (2) the absence of an impairment loss recognised in respect of intangible assets relating to the exclusive right to use Synertone 1 satellite bandwidth of approximately HK$215.2 million, which was recorded in the year ended 31 March 2018.

Profit (loss) for the year

Given the foregoing factors, the Group recorded the profit attributable to owners of the Company of approximately HK$208.7 million for the year ended 31 March 2019, while the loss attributable to owners of the Company in last year was approximately HK$545.1 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 shareholders of the Company (the "**Shareholders**"). In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings. As at 31 March 2019, the issued share capital of the Company was approximately HK$215.1 million, comprising 4,301,816,000 Shares of nominal value of HK$0.05 per Share (31 March 2018: 3,348,800,000 Shares).

On 23 May 2017, the Company and Baoshan International Group Limited（寶山國際集團有限公司）(the "**Subscriber**"), an independent third party, entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, convertible bonds in the principal amount of HK$48 million in tranche(s) (the "**Convertible Bonds**") in accordance with the written demand(s) by the Company to be made within twelve months immediately after the completion of conditions precedent specified in the Subscription Agreement which took place on 6 June 2017. The Convertible Bonds shall mature after 2 years from the date of issue, and bear interest at 5% per annum on the outstanding principal thereof payable in arrears annually. The initial conversion price of the Convertible Bonds is HK$0.16 per Share, representing a premium of approximately 15.11% to the closing price of HK$0.139 per Share as quoted on the Stock Exchange on 23 May 2017, being the date of the Subscription Agreement. A maximum number of 300,000,000 conversion shares, which will rank pari passu with other Shares in issue in all respects, will be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 30 September 2016. During the year ended 31 March 2018, the Company had issued Convertible Bonds in aggregate principal amount of HK$20 million to the Subscriber.

During the year ended 31 March 2019, the Company has issued the final tranche of the Convertible Bonds in an aggregate principal amount of HK$28 million upon receipt of subscription money from the Subscriber. The net proceeds arising from the issue of the final tranche of the Convertible Bonds, after deduction of expenses, amounted to approximately HK$28 million, which were intended to be applied towards the Group's general working capital and such net proceeds were fully utilized for payment of administrative expenses including staff salaries, rental expenses and legal and professional fees. On 9 July 2018, the Company received a conversion notice from the Subscriber to exercise the conversion rights attached to the outstanding Convertible Bonds in the principal amount of HK$48 million. 300,000,000 Shares, representing approximately 7.0% of the enlarged issued share capital immediately after the conversion, were allotted and issued to the Subscriber on 12 July 2018 at the conversion price of HK$0.16 per Share.

On 9 May 2018, the Company entered into a subscription agreement (the "**Shares Subscription Agreement**") with Mr. Gao Jiemin ("**Mr. Gao**"), pursuant to which Mr. Gao subscribed for 653,016,000 Shares (the "**Subscription Shares**") at the subscription price of HK$0.08 per Share, representing a premium of approximately 5.26% to the closing price of HK$0.076 per Share as quoted on the Stock Exchange on 9 May 2018, being the date of the Shares Subscription Agreement (the "**Subscription**"). The aggregate nominal value of the Subscription Shares is HK$32,650,800. The Board considers that the Subscription is an appropriate means to provide additional funding for the Company to maintain the Group's working capital requirement while broadening the capital base of the Company. Accordingly, the Directors were of the view that the Subscription was in the interests of the Company and the Shareholders as a whole.

The Subscription was completed on 31 May 2018 and the 653,016,000 Subscription Shares were issued and allotted to Mr. Gao at the subscription price of HK$0.08 per share. The net proceeds, after deduction of expenses, amounted to approximately HK$52,193,000, representing a net price of approximately HK$0.08 per Subscription Share, which intended to be used as the Group's general working capital and/or for future investment opportunities.

As of 31 March 2019, the net proceeds have been fully applied as intended use for the Group's working capital, mainly for payment of administrative expenses including staff salaries, rental expenses and legal and professional fees. For details, please refer to the Company's announcements dated 9 May 2018 and 31 May 2018.

On 22 September 2014, the Company issued 660,000,000 warrants to CITIC Capital Management Limited at the issue price of HK$0.01 per warrant (restated to 196,666,667 warrants following share consolidation on 24 March 2016 and rights issue completed on 28 April 2016). Each warrant carries the right to subscribe for one warrant share at the subscription price of HK$1.98 (subject to adjustment). Such warrants can be exercised at any time during the exercise period of five (5) years commencing from the date of issue. During the year ended 31 March 2019, 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 2019 was approximately 1.1 (31 March 2018: approximately 0.7). Gearing ratio calculated by total borrowings (comprising bank and other borrowings, finance leases payable and liability component of convertible bonds) net of cash and cash equivalents, over total equity as at 31 March 2019 was 68% (31 March 2018: (465)%).

The following table summarises the cash flows of the Group for the year ended 31 March 2019 together with the comparative figures for the year ended 31 March 2018:

	2019	2018
	HK$'000	*HK$'000*
Net cash used in operating activities	**(38,363)**	(5,385)
Net cash used in investing activities	**(34,473)**	(5,037)
Net cash from (used in) financing activities	**76,973**	(1,831)

Operating activities

Net cash used in operating activities amounted to approximately HK$38.4 million for the year ended 31 March 2019, which was increased by approximately HK$33.0 million or 611.1% as compared with that for the corresponding period in last year. The increase was attributable to the negative change in net working capital mainly arising from settlement of trade and other payables.

Investing activities

Net cash used in investing activities amounted to approximately HK$34.5 million for the year ended 31 March 2019, which was increased by approximately HK$29.5 million or 590.0% as compared with that for the corresponding period in last year. The increase was attributable to short term loans advanced to independent third parties to generate returns on surplus cash.

Financing activities

Net cash from financing activities amounted to approximately HK$77.0 million for the year ended 31 March 2019, which were mainly attributable to the proceeds from the issue of new shares and convertible bonds and partly offset by the repayment of bank and other borrowings. In contrast, net cash used in financing activities amounted to approximately HK$1.8 million for the year ended 31 March 2018, which were due to net repayment of bank and other borrowings.

Bank and other borrowings

As at 31 March 2019, the Group had outstanding bank and other borrowings of approximately HK$104.2 million (31 March 2018: approximately HK$171.7 million).

Pledge of assets

As at 31 March 2019, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK$47.1 million (31 March 2018: approximately HK$40.6 million) pledged against bank borrowings raised by the Group and finance leases payable.

Contingent liabilities

As at 31 March 2019, the Group had no material contingent liabilities.

Major acquisition and disposal

On 29 June 2016, the Group entered into a conditional agreement (the "**Further Acquisition Agreement**") with the three shareholders of Sense Field (the "**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**"). 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 amortization ("**EBITDA**") of the Sense Field Group for the year ended 31 December 2016 is not less than HK$40 million (the "**First-year Target**"). The First-year Target was not met.

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

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

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

The actual EBITDA for the years ended 31 December 2016 and 31 December 2017 were approximately HK$9,939,000 and HK$(10,075,000) respectively. As the actual aggregate EBITDA for the two years ended 31 December 2017 could not meet the Two-year Target and the Retention Funds are not sufficient to cover the Shortfall by approximately HK$72.1 million, the Group is entitled to indemnify the said amount from the Vendors.

The Vendors have settled the compensation amount of approximately HK$72.1 million on 6 September 2018. The independent non-executive Directors are of the opinion that the obligations of the Vendors in relation to the above profit guarantee have been fulfilled and such performance is fair and reasonable and in the interests of the Shareholders as a whole.

For further details, please refer to the Company's announcements dated 6 September 2018 and 24 October 2018.

Save as disclosed in the section headed "Business Review" above, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 March 2019.

Significant capital expenditure for the year

Save as disclosed above, the Group has no significant capital expenditure commitments as at 31 March 2019.

Risk of foreign exchange fluctuations

Substantially all transactions of the Group are denominated in Renminbi ("**RMB**"), USD and HK$ and most of the bank deposits are in RMB and HK$ to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against USD and HK$ during the year, the Directors expect that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure as at 31 March 2019.

Employee and remuneration policy

As at 31 March 2019, the Group had 159 employees (31 March 2018: 257). For the year ended 31 March 2019, the staff costs of the Group amounted to approximately HK$29.5 million, representing a decrease of approximately HK$15.4 million or 34.3% as compared to approximately HK$44.9 million for the corresponding period last year, mainly due to the decrease in headcount attributable to the specialised communication systems business in line with the decrease in sales.

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 2019, none of the share options were outstanding under the share option scheme.

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

EVENT SUBSEQUENT TO YEAR END

There were no other significant events subsequent to year end and up to the date of this announcement.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 26 September 2019 ("**2019 AGM**"), the register of members of the Company will be closed from Monday, 23 September 2019 to Thursday, 26 September 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2019 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 (and such address will be changed to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 11 July 2019) for registration not later than 4:30 p.m. on Friday, 20 September 2019.

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 2019.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considers that the Company was in compliance with all the applicable code provisions as set out in the CG Code during the year ended 31 March 2019 apart from code provision E.1.2 as disclosed below.

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Mr. Wong Chit On, the chairman of the Board, was not able to attend the annual general meeting held on 6 September 2018 (the "**2018 AGM**") due to another important business meeting. Mr. Han Weining, the executive Director and chief executive officer of the Company, was appointed as the chairman of the 2018 AGM to answer and address questions raised by the Shareholders at the 2018 AGM.

Mr. Wang Chen, being an independent non-executive Director and the chairman of the nomination committee of the Company, was unable to attend the 2018 AGM due to his other business engagements.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all Directors, all Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code during the year ended 31 March 2019.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 March 2019 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.synertone.net). The annual report of the Company for the year ended 31 March 2019 will be despatched to the Shareholders and published on the aforesaid websites in due course.

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

Hong Kong, 28 June 2019

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.