



協同通信集團有限公司

Synertone Communication Corporation

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1613

2019

Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wong Chit On (*Chairman*)

Mr. Han Weining (*Chief Executive Officer*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ying Hung Andy

Mr. Wang Chen

Ms. Li Mingqi

COMMITTEES

AUDIT COMMITTEE

Mr. Lam Ying Hung Andy (*Chairman*)

Mr. Wang Chen

Ms. Li Mingqi

NOMINATION COMMITTEE

Mr. Wang Chen (*Chairman*)

Mr. Lam Ying Hung Andy

Ms. Li Mingqi

REMUNERATION COMMITTEE

Ms. Li Mingqi (*Chairperson*)

Mr. Lam Ying Hung Andy

Mr. Wang Chen

COMPANY SECRETARY

Mr. Tse Kam Fai, *FCIS, FCS, MHKIoD*

AUTHORISED REPRESENTATIVES

Mr. Wong Chit On

Mr. Lam Ying Hung Andy (alternate to Mr. Wong Chit On)

Mr. Tse Kam Fai

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tsim Sha Tsui Centre

66 Mody Road

Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Block B, Teng Bang Building

1st Qingshuihe Road, Luohu District

Shenzhen

China

PRINCIPAL BANKERS

HONG KONG

The Hongkong & Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

PEOPLE'S REPUBLIC OF CHINA ("PRC")

Bank of China

China Construction Bank

Agricultural Bank of China

Industrial and Commercial Bank of China

China Merchants Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House – 3rd Floor

24 Shedden Road, P.O. Box 1586

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISER

Alvan Liu & Partners

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HLB Hodgson Impey Cheng Limited

Certified Public Accountants

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WEBSITE

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STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1613

FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by approximately HK\$12.8 million or 13.6% from approximately HK\$93.8 million for the year ended 31 March 2018 to approximately HK\$81.0 million for the year ended 31 March 2019.
- Gross profit of the Group increased by approximately HK\$11.8 million from approximately HK\$15.0 million for the year ended 31 March 2018 to approximately HK\$26.8 million for the year ended 31 March 2019, with gross profit margin increased from approximately 16.0% for the year ended 31 March 2018 to 33.1% for the year ended 31 March 2019.
- Profit attributable to owners of the Company amounted to approximately HK\$208.7 million for the year ended 31 March 2019, as compared with loss attributable to owners of the Company of HK\$545.1 million for the year ended 31 March 2018.

Results performance for the year ended 31 March	2019	2018	2017
<i>For continuing and discontinued operations</i>			
Revenue (HK\$'000)	81,005	93,763	144,677
Gross profit (HK\$'000)	26,781	15,020	28,083
Gross profit margin (%)	33.1	16.0	19.4
Profit/(loss) for the year (HK\$'000)	206,184	(549,452)	(201,416)
Net profit/(loss) margin (%)	254.5	(586.0)	(139.2)
Basic loss per share (HK\$)	0.05	(0.16)	(0.06)

Liquidity and gearing ratio as at 31 March	2019	2018	2017
Inventories turnover days (Note 1)	310	299	192
Trade receivables turnover days (Note 2)	347	460	337
Trade payables turnover days (Note 3)	194	253	156
Current ratio	1.1	0.7	0.9
Gearing ratio (%) (Note 4)	67.7	(386.6)	197.0

Operating cash flow and capital expenditure for the year ended 31 March	2019	2018	2017
Net cash used in operating activities (HK\$'000)	(38,363)	(5,385)	(14,492)
Capital expenditure (HK\$'000) (Note 5)	1,220	6,597	34,273

Notes:

- Calculation was based on the average of the inventory balance at the beginning and the end of the relevant year divided by cost of sales (excluding depreciation and amortisation charges) for the year and multiplied by 365 days.
- Calculation was based on the average of the trade receivables balance at the beginning and the end of the relevant year divided by total turnover for the year and multiplied by 365 days.
- Calculation was based on the average of the trade payables balance at the beginning and the end of the relevant year divided by cost of sales (excluding depreciation and amortisation charges) for the year and multiplied by 365 days.
- Calculation was based on total bank and other borrowings, convertible bonds payable and finance leases payable, net of cash and cash equivalents at the end of the relevant year, over total equity at the end of the relevant year.
- It represented the payments in relation to the acquisition of property, plant and equipment and intangible assets.

CHAIRMAN'S STATEMENT

To Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Synertone Communication Corporation (the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 March 2019.

The Group recorded revenue from continuing operations of approximately HK\$81.0 million for the year ended 31 March 2019, representing a slight decrease of approximately HK\$3.8 million or 4.5% as compared with approximately HK\$84.8 million for the preceding financial year. Despite the overall decrease in revenue mainly attributable to the downturn of the communication technology business, the Group achieved substantial sales growth in the building intelligence and smart home business and the industrial control system business. During the year under review, revenue from industrial control system business surged by 44.6% as the Group has been successful in developing new customer bases in the northern and western provinces of China. The gross profit margin from continuing operations also increased slightly from 32.5% for the year ended 31 March 2018 to 33.1% for the year ended 31 March 2019.

In the meantime, the Group had reached settlement agreements with the vendor (the "Vendor") of the Synertone 1 satellite bandwidth for termination of the existing co-operation model in respect of provision of satellite bandwidth resources. Subsequently, the Group had also disposed of its Synertone 1 satellite communication business in entirety in order to place more effort in developing other existing or potential new businesses.

In light of the above, the Group recorded profit attributable to owners of the Company of approximately HK\$208.7 million for the year ended 31 March 2019, as compared to loss attributable to owners of the Company of approximately HK\$545.1 million for the year ended 31 March 2018. The turnaround was mainly due to the reversal of outstanding satellite bandwidth resources fees (recognised as finance leases payable) in the Group's profit or loss which were no longer payable to the Vendor as agreed in the abovementioned settlement agreements; and the decrease in impairment losses recognised in respect of goodwill and intangible assets.

During the current year, the Company entered into a non-legally binding letter of intent 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. Should the possible acquisition materializes, the Group is looking forward to striving for a constant innovation in its technology, business and service, which will be in the interests of the Company and its Shareholders as a whole.

Wong Chit On

Chairman

28 June 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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 very small aperture terminal ("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 Limited ("Sense Field", together with its subsidiaries, "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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Synertone 1 satellite communication

In October 2018, (i) the Company and Vastsuccess Holdings Limited ("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 6,277,419.54 (including the outstanding bandwidth resource fees payable for the fourth service year) (the "Outstanding Amount") 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 Communication Limited ("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. 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 report. 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 of the Company (the "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).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 of Hong Kong Limited (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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 HK\$'000	2018 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 report.

DIVIDEND

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

DIRECTORS

EXECUTIVE DIRECTORS

Wong Chit On (王浙安) ("Mr. Wong"), (formerly known as Wang Gang Jun (王鋼軍)) aged 60, is the founder of the Group and was appointed as a Director in October 2006. He is currently an executive Director and the chairman of the Group. Mr. Wong is also a director of certain subsidiaries of the Company. Until June 2015, he also served as chief executive officer of the Company. He is primarily responsible for formulating the overall corporate strategy of the Group and the management of the Board. Mr. Wong founded the Group in 2001 and has over 15 years of experience in the specialized communication industry. He was an executive director and the chairman of Neolink Cyber Technology (Holding) Limited (優能數碼科技(控股)有限公司) (now known as China Fortune Investments (Holding) Limited (中國幸福投資(控股)有限公司)), the shares of which are listed on GEM of the Stock Exchange (Stock Code: 8116), from 1999 to 2001. Mr. Wong is the sole director of Excel Time Investments Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance Chapter 571, Laws of Hong Kong (the "SFO").

In 2004, Mr. Wong was appointed as an adjunct professor of Harbin Institute of Technology Shenzhen Graduate School (哈爾濱工業大學深圳研究生院). From 2005 to 2009, he served as a committee member of electronics and communications specialist working committee of Shenzhen City Specialist Working Association (深圳市專家工作聯合會). In 2009, Mr. Wong was recognized as one of the "2009 Outstanding and Innovation Entrepreneur in China" (2009中國優秀創新企業家). He was nominated as the standing supervisor of the China Users Association for Communications Broadcasting & Television in December 2010.

Han Weining (韓衛寧*), ("Mr. Han"), aged 57, was appointed as an executive Director and the chief executive officer of the Company in February 2011 and June 2015, respectively. From 1989 to 2006, he worked at Citect Corporation Limited, later acquired by Schneider Electric and his last position was the director of Asia pacific. Mr. Han also served as an executive director of MOX Group in Australia. Mr. Han graduated from Zhejiang University (浙江大學) majoring in Wireless Electronic Technology and Master Degree in Engineering in 1983 and 1986, respectively. He was elected as a member of the Institution of Engineers in Australia in 1994.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Ying Hung Andy (林英鴻), ("Mr. Lam"), aged 54, was appointed as an independent non-executive Director in February 2011. He is the chairman of the audit committee of the Company (the "Audit Committee") and a member of each of the nomination committee (the "Nomination Committee") and the remuneration committee (the "Remuneration Committee") of the Company. Mr. Lam has over 26 years of experience in logistics, accounting, banking and finance industry. He is a fellow of the Association of Chartered Certified Accountants (United Kingdom), a member of the Hong Kong Institute of Company Secretaries, the Institute of Chartered Secretaries and Administrators (United Kingdom) and the Chartered Institute of Bankers. Mr. Lam obtained his postgraduate diploma in corporate administration, master degree of professional accounting and master degree in Ecommerce for executives from the Hong Kong Polytechnic University in 1997, 1999 and 2004 respectively. He is currently the managing consultant of Lontreprise Consulting Limited, and had been the finance director and administrative accountant in two logistics companies. Mr. Lam is currently an independent non-executive director of each of Xingfa Aluminum Holdings Limited (Stock Code: 0098), Brilliant Circle Holdings International Limited (Stock Code: 1008) and Weiye Holdings Limited (Stock Code: 1570), the shares of all of the above companies are listed on the Main Board of the Stock Exchange.

* For identification purpose only

DIRECTORS (CONTINUED)

Wang Chen (王忱) ("Mr. Wang"), aged 54, was appointed as an independent non-executive Director in June 2015. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Mr. Wang holds a Bachelor of Engineering degree in Microwave Communication Engineering from PLA Institute of Communication Engineering (中國人民解放軍通信工程學院) (now known as PLA University of Science and Technology) and a degree of Executive Master of Business Administration (EMBA) from the School of Business, Sun Yat-Sen University (中山大學). From 1986 to 2006, he worked in the Information Technology Department of the People's Liberation Army General Staff. Since 2006, Mr. Wang is the chairman of Guangzhou SKYI Information Technology Co., Ltd. (廣州市天奕信息科技有限公司 (now known as 廣州市天奕信息技術股份有限公司)), a company established in 2006 and its shares quoted on the National Equities Exchange and Quotations System (the New Third Board*) in China since 9 May 2017 (Stock Code: 871411) and is principally engaged in development on software of quality assurance and general automated test system.

Li Mingqi (李明綺) ("Ms. Li"), aged 51, was appointed as an independent non-executive Director in October 2016. She is the chairperson of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Ms. Li graduated from Fudan University in Shanghai with a Bachelor's degree in Economics. She has also obtained a Master's degree in Economics from the Southern Methodist University and a Master's degree in Management and Administrative Sciences from the University of Texas. Ms. Li is a Certified Public Accountant in the State of New York, the United States of America. She has extensive experience in financial management. Ms. Li was a senior associate of JP Morgan Chase, associate/portfolio manager of BHF Capital, vice president of Transamerica Business Capital, vice president of Morgan Stanley and hedge fund controller of Mercury Capital Management. She was also an independent non-executive director of Sino Gas International Holdings, Inc., whose shares were previously listed on the Over-The-Counter Bulletin Board in the US, from March 2011 to November 2014. Ms. Li served as a business consultant of Seekers Advisors H.K. Limited and is currently an independent non-executive director of Neo-Neon Holdings Limited (Stock Code: 1868), whose shares are listed on the Main Board of the Stock Exchange.

* For identification purpose only

REPORT OF THE DIRECTORS

The Directors are pleased to present the Company's annual report together with the audited consolidated financial statements of the Group for the year ended 31 March 2019.

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 18 April 2012, the Shares successfully commenced dealing on the Main Board of the Stock Exchange.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal operations of the Group are conducted in the PRC. The principal businesses of the Group include provision of (i) design, research and development, manufacture and sales of specialized 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. Particulars of principal activities of the subsidiaries of the Company are set out in note 19 to the financial statements.

Further discussion and analysis of these activities, including an indication of likely future developments in the Group's business, can be found in the Chairman's Statement and the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this Directors' Report.

Details of key performance indicators are shown in the "Financial Highlights" and "Management Discussion and Analysis" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's businesses, financial condition, results of operations and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's businesses, financial conditions, results of operations or growth prospects differing materially from expected or historical results. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

BUSINESS/MARKET RISKS

The Group's revenue is mainly derived from customers located in the PRC. The Group undertakes the risks associated with China, including risk of change in the policies and regulations, technological obsolescence, supply and demand imbalance, and overall economic conditions. Business/market risks may adversely affect the Group's business, financial and/or operating performance.

The functional manager will carefully scrutinize each project for related risks and returns. These include assessment of relevant government policies, market demand, market conditions and economic data. The management is responsible for supervision, conducting regular operational reviews and keeping the Board fully informed through regular reports (either in written or verbal form), and prompt decisions can therefore be made if changes are required.

REPORT OF THE DIRECTORS (CONTINUED)

OPERATIONAL RISK

The front-line or functional manager will review key activities of the Group and ensures all material required control procedures, including financial and operational, are functioning implemented. Precautionary and contingency measures are also set up to ensure the Group is protected against major potential loss, damage or impact to the business operations.

FINANCIAL RISK

The Group's business operation is exposed to risks from exchange rates, interest rates and liquidity. Please also refer to note 34 to the financial statements for discussion of the financial risks facing by the Group.

COMPLIANCE RISKS

Front-line or functional manager reviews key activities of the Group to ensure the compliance of local rules and regulations from time to time. The responsible persons of each of the major subsidiaries are required to communicate and consult with local legal advisors in daily operations or for material transactions if necessary. The Group has implemented certain internal control procedures to avoid/reduce the risk of non-compliance of local rules and regulations as well as the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

KEY RELATIONSHIPS

(a) *Employees*

Human resources are one of the greatest assets of the Group and the Group ensures all staff are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety. The Group maintains a good relationship with its employees. Staff salary payment and promotion will be measured against their progressive performance level, contribution, and achievement against the objectives set by the Group. The annual performance evaluation will be conducted annually.

(b) *Customers*

To maintain customer intimacy and keep good relationship with key customers, the Group has implemented a series of policies including the promotion of new products to customers, offered free testing and the provision of after sales and maintenance services.

(c) *Suppliers*

The Group has developed stable relationships with many of its key suppliers and implements stringent selection criteria for raw materials suppliers and product parts and components suppliers to maintain the quality of its products. The Group only procures raw materials and parts and components from suppliers who have passed its quality and reliability tests. The Group randomly inspects test samples of raw materials and product parts from its suppliers and return those that do not pass the inspection. Every year the Group will also conduct annual appraisal on key suppliers and new suppliers so as to ensure materials produced by these suppliers are in line with the Group's quality requirement.

Further discussion on the key relationships is set out in the Environmental, Social and Governance Report set out in this annual report.

REPORT OF THE DIRECTORS (CONTINUED)

ENVIRONMENTAL POLICIES

The Group is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands a better future depends on everyone's participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

Further discussion on the environmental policies is set out in the Environmental, Social and Governance Report set out in this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all PRC laws and applicable laws in the jurisdictions where it has operations. During the year ended 31 March 2019 and up to the date of this annual report, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2019 are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 60 and 61 of this annual report.

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 (the "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.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the five financial years ended 31 March 2019 is set out on page 150 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 March 2019, together with the reasons therefore, are set out in note 32 to the financial statements. Details of change in the capital structure of the Company are set out in the paragraph headed "Capital structure, liquidity and financial resources" in the section headed "Management Discussion and Analysis" of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or, applicable laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to the Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2019.

RESERVES

The movements in the reserves of the Company and the Group during the year ended 31 March 2019 are set out in note 32 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2019, the aggregate amount of reserves available for distribution to owners of the Company, which included accumulated losses and share premium, was nil (2018: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 March 2019, aggregate purchases attributable to the Group's five largest suppliers and aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total purchases and total revenue, respectively.

At all time during the year ended 31 March 2019, none of the Directors or any of their close associates or any Shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or the five largest customers.

DIRECTORS

The Directors during the year ended 31 March 2019 and up to the date of this annual report are as follows:

EXECUTIVE DIRECTORS

Mr. Wong Chit On (*Chairman*)

Mr. Han Weining (*Chief Executive Officer*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ying Hung Andy

Mr. Wang Chen

Ms. Li Mingqi

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. and the Board considered that each of the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

In accordance with the Articles of Association, Mr. Wang Chen and Ms. Li Mingqi will retire by rotation at the 2019 AGM and, being eligible, will offer themselves for re-election.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2019 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence as at the end of the year or at any time during the year ended 31 March 2019.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The Articles of Association provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Save for the above, at no time during the year ended 31 March 2019 and up to the date of this annual report, there was or is, any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

EMOLUMENT POLICY

The Group's employee remuneration policy is determined based on a number of factors such as their performance, experience and prevailing industry practices. Compensation policies and packages of employees are reviewed on a yearly basis. In addition to basic salary, performance related salary such as bonus may also be awarded to employees based on internal performance evaluation. The Group 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.

The Group has been committing resources to continuing education and training programs 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, ranging from technical training for production staff to financial and administrative trainings for management staff.

DIRECTORS' INTERESTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or a controlling shareholder (as defined in the Listing Rules) of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 March 2019.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 March 2019, the interests and short positions of the Directors and chief executive of the Company in any of the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

LONG POSITIONS IN SHARES

Name of Director	Capacity/Nature of interest	Number and class of Shares/ underlying shares held	Approximate percentage of shareholding
Mr. Wong Chit On	Interest of a controlled corporation	1,194,710,296 (Note)	27.77 %
Mr. Han Weining	Beneficial owner	40,800,000	0.95%

Note: These interests in Shares are held by Excel Time Investments Limited ("Excel Time"), which is wholly and beneficially owned by Mr. Wong Chit On, the chairman of the Company and an executive Director. By virtue of the SFO, Mr. Wong Chit On is deemed to be interested in these 1,194,710,296 Shares. Mr. Wong Chit On is the sole director of Excel Time.

Save as disclosed above, as at 31 March 2019, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the section headed "Share Option Scheme" below, at no time during the year ended 31 March 2019 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS (CONTINUED)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO

As at 31 March 2019, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

LONG POSITION IN SHARES

Name of Shareholder	Capacity/Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of issued Shares (Note 1)
Excel Time	Beneficial owner	1,194,710,296 (Note 2)	27.77%
Gao Jiemin	Beneficial owner	653,016,000	15.18%
Baoshan International Group Limited	Beneficial owner	300,000,000 (Note 3)	6.97%
Wang Jian	Interest of a controlled corporation	300,000,000 (Note 3)	6.97%
	Beneficial owner	17,520,000	0.41%

Notes:

1. Based on 4,301,816,000 Shares in issue as at 31 March 2019.
2. Excel Time is wholly-owned by Mr. Wong Chit On, the chairman of the Company and an executive Director whose interest in Shares is set out in the above section headed "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures of the Company or its associated corporations".
3. Such Shares were registered in the name of Baoshan International Group Limited ("Baoshan International"), a company which is wholly-owned by Mr. Wang Jian. By virtue of the provisions of Part XV of the SFO, Mr. Wang Jian is deemed to be interested in all the Shares held by Baoshan International.

Save as disclosed above, as at 31 March 2019, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying shares of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 22 March 2012.

Eligible participants of the Share Option Scheme include, (i) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Company or any of its subsidiaries holds an equity interest, including any executive Director, any of its subsidiaries or any Invested Entity; (ii) any non-executive Director (including any independent non-executive Director), any of its subsidiaries or any Invested Entity; (iii) any Shareholder, any of its subsidiaries or any Invested Entity or any holder of any securities issued by the Company, any of its subsidiaries or any Invested Entity who has, in the opinion of the Board, made contribution to the business growth of the Company, any of its subsidiaries or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Company, any of its subsidiaries or any Invested Entity; (v) any supplier of goods and/or services to the Company, any of its subsidiaries or any Invested Entity; (vi) any business collaborator, business consultant, joint venture or business partner, technical, financial, legal and other professional advisers engaged by the Company, any of its subsidiaries or any Invested Entity; (vii) any associate of the directors or the substantial shareholders of the Company, any of its subsidiaries or any Invested Entity who has, in the opinion of the Board, made contribution to the business growth of the Company, any of its subsidiaries or any Invested Entity; or (viii) the trustee of any trust preapproved by the Board, the beneficiary (or in case of discretionary trust, the discretionary objects) of which includes any of the above-mentioned persons and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to the above classes of participants. For the avoidance of doubt, the grant of any option by the Company for the subscription of Shares or other securities of the Company or its subsidiaries to any person who fall within any of the above classes of participants shall not, by itself, unless the Board otherwise determines, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any option shall be determined by the Board at its sole and absolute discretion from time to time.

Principal terms of the Share Option Scheme were set out in the note 31 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

Details of the movement in the share options granted under the Share Option Scheme during the year ended 31 March 2019 are as follows:

Category of participants	Date of grant of share option	Exercise Period (Note)	Exercise price (HK\$)	Outstanding as at 01.04.2018	Granted/ exercised/ cancelled during the year	Lapsed during the year	Outstanding as at 31.03.2019
Directors							
Mr. Wong Chit On	24.12.2013	24.12.2015 – 23.12.2018	2.060	1,456,604	–	(1,456,604)	–
Mr. Han Weining	24.12.2013	24.12.2015 – 23.12.2018	2.060	1,456,604	–	(1,456,604)	–
Mr. Lam Ying Hung Andy	24.12.2013	24.12.2015 – 23.12.2018	2.060	1,456,604	–	(1,456,604)	–
Sub-total				4,369,812	–	(4,369,812)	–
Employees							
In aggregate	24.12.2013	24.12.2015 – 23.12.2018	2.060	11,677,112	–	(11,677,112)	–
Other Participants							
In aggregate	24.12.2013	24.12.2015 – 23.12.2018	2.060	29,132,076	–	(29,132,076)	–
Total				45,179,000	–	(45,179,000)	–

Notes: The option period of the options granted on 24 December 2013 is 5 years whereas the vesting period is 2 years. The options vest in 3 installments: (i) 33.33% after 2 years from the date of grant; (ii) 33.33% after 3 years from the date of grant; and (iii) 33.33% after 4 years from the date of grant.

During the year ended 31 March 2019, the Group recognised the net expenses of nil (2018: approximately HK\$841,000) in relation to share options granted.

The total number of Shares available for issue under the Share Option Scheme is 78,912,000, representing approximately 1.83% of the total number of Shares in issue as at the date of this report.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Change in Director's information since the date of the 2018 interim report of the Company is set out below:

- Mr. Lam Ying Hung Andy, an independent non-executive Director, has been appointed as independent non-executive director of Weiye Holdings Limited (Stock code: 1570), shares of which are listed on the Main Board of the Stock Exchange, since December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

CODE ON CORPORATE GOVERNANCE PRACTICES

A report on the principal corporate governance practice adopted by the Company is set out on pages 26 to 40 of this annual report.

CONNECTED TRANSACTION

During the year ended 31 March 2019, the Directors are not aware of any transactions of the Group which constituted non-exempt connected transactions or non-exempt continuing connected transactions under the Listing Rules.

RELATED PARTY TRANSACTIONS

During the year ended 31 March 2019, the Group had entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards but these transactions were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules. Details of these related party transactions are set out in note 38 to the financial statements.

EQUITY-LINKED AGREEMENT

During the year ended 31 March 2019, the Company had issued the final tranche of Convertible Bonds under the Subscription Agreement. During the year ended 31 March 2019, the Company has issued Convertible Bonds in aggregate principal amount of HK\$28,000,000. In July 2018, all outstanding Convertible Bonds were converted and the Company has allotted and issued 300,000,000 Shares to the Subscriber after the conversion.

Save for the Share Option Scheme as disclosed in note 31 to the financial statements, the Subscription Agreement, the subscription agreement relating to the Subscription, and the subscription agreement relating to the subscription of warrants issued by the Company as disclosed in the paragraph headed "Capital structure, liquidity and financial resources" in the section headed "Management Discussion and Analysis" of this annual report, no equity-linked agreements were entered into by the Company during the year ended 31 March 2019 or subsisted at the end of the year.

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events occurring after the reporting period up to the date of this annual report.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee. The Audit Committee comprises three independent non-executive Directors, namely Mr. Lam Ying Hung Andy (as committee chairman), Mr. Wang Chen and Ms. Li Mingqi. 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.

REPORT OF THE DIRECTORS (CONTINUED)

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float as required under the Listing Rules during the year ended 31 March 2019 and up to the date of this annual report.

AUDITOR

Following the resignation of CCIF CPA Limited as auditor of the Company on 31 March 2017, HLB Hodgson Impey Cheng Limited was appointed as the auditor of the Company on 31 March 2017 to fill the casual vacancy and was re-appointed as the auditor of the Company at the annual general meetings held on 6 September 2017 and 6 September 2018 respectively. Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

The consolidated financial statements of the Group for the year ended 31 March 2019 were audited by HLB Hodgson Impey Cheng Limited. HLB Hodgson Impey Cheng Limited shall retire and a resolution will be proposed for approval by Shareholders at the 2019 AGM to re-appoint HLB Hodgson Impey Cheng Limited as the auditor of the Company.

On Behalf of the Board

Wong Chit On

Chairman and Executive Director

Hong Kong, 28 June 2019

CORPORATE GOVERNANCE REPORT

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 was unable to attend the 2018 AGM due to his other business engagements.

The Directors believe that there are adequate corporate governance measures in place to manage the conflict of interests arising from any competing business and to safeguard the interests of the Shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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.

BOARD OF DIRECTORS

(A) THE COMPOSITION OF THE BOARD

The Board comprises two executive Directors and three independent non-executive Directors. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. The Board members during the year and up to the date of this annual report, were:

Executive Directors

Mr. Wong Chit On (*Chairman*)

Mr. Han Weining (*Chief Executive Officer*)

Independent Non-Executive Directors

Mr. Lam Ying Hung Andy

Mr. Wang Chen

Ms. Li Mingqi

Each Director possesses skills and experience appropriate to the business of the Group and the biographical details of the Directors, as at the date of this annual report, are set out on pages 13 to 14 of this annual report.

Appropriate directors' liability insurance cover has been arranged to indemnify the Directors for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are to be reviewed regularly.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(B) BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") and delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of Directors. The Board diversity would be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skill, knowledge and length of service, and the selection of candidates will also base on the above. The Nomination Committee will review and adopt the above measurements when it reviewed the composition of the Board and it will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. After assessing the suitability of the Directors' skills and experiences to the Company's business, the Nomination Committee considered that the existing Board was appropriately structured.

(C) RESPONSIBILITY OF DIRECTORS

The Board is responsible for the overall leadership of the Company. The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors are responsible for formulating the business strategies and development plan of the Group, while the senior management personnel are delegated to supervise and execute the plans and overall management of the Group.

Training and Continuous Development for Directors

As at the date of this annual report, the Company has received the completed continuous professional development records from each of the Directors as a record of training (in the form of reading materials on subjects relating to rules and regulations and discharge of directors' duties and responsibilities) they received for the year ended 31 March 2019.

(D) BOARD MEETINGS AND GENERAL MEETING

In compliance with the code provision A.1.1 of the CG Code, there are at least four regular board meetings should be held each year at approximately quarterly intervals. A notice of the meeting would be given to all Directors at least 14 days prior to the date of the meeting to enable all Directors to attend the meetings. The agenda of the meeting shall be determined after consulting each Director so that each Director is given the opportunity to include their proposals into the agenda.

For the year ended 31 March 2019, 4 Board meetings and a general meeting, being the 2018 AGM, were held and the attendance record of the Directors is set out below:

	Number of Board meetings attended/held	Attendance ratio	2018 AGM
<i>Executive Directors</i>			
Mr. Wong Chit On (<i>Chairman</i>)	4/4	100%	0/1
Mr. Han Weining (<i>Chief Executive Officer</i>)	4/4	100%	1/1
<i>Independent Non-executive Directors</i>			
Mr. Lam Ying Hung Andy	4/4	100%	1/1
Mr. Wang Chen	4/4	100%	0/1
Ms. Li Mingqi	4/4	100%	1/1

CORPORATE GOVERNANCE REPORT (CONTINUED)

The company secretary of the Company (the "Company Secretary") assists the chairman of each meetings in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. The Company Secretary also keeps detailed minutes of each meetings, which are available to all Directors for inspection. A draft of Board minutes are circulated to all Directors for their comments and approved as soon as practicable after the Board meetings.

All Directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and service of the Company Secretary, who is responsible for providing Directors with board papers and related materials and ensuring that board procedures are followed.

(E) INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The current independent non-executive Directors are Mr. Lam Ying Hung Andy, Mr. Wang Chen and Ms. Li Mingqi. The Board considers that all independent non-executive Directors possess appropriate and sufficient industry and finance experience and qualification to carry out their duties so as to protect the interest of the Shareholders. One of the independent non-executive Directors, Mr. Lam Ying Hung Andy, has over 20 years of experience in accounting and finance industry and he is a fellow of the Association of Chartered Certified Accountants (United Kingdom).

The Board confirms that the Company has received from each of the independent non-executive Directors an annual confirmation in respect of their independence for the year under review and up to the date of publication of this annual report pursuant to Rule 3.13 of the Listing Rules. Based on the confirmation, the Board considers all independent non-executive Directors to be independent.

(F) TERMS OF APPOINTMENT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ying Hung Andy has renewed his letter of appointment with the Company for a term of three years commencing on 22 March 2018, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

Mr. Wang Chen has renewed his letter of appointment with the Company for a term of three years commencing on 25 June 2018, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

On 3 October 2016, Ms. Li Mingqi has entered into a letter of appointment with the Company for an initial term of three years commencing on 3 October 2016, which is automatically renewable for successive terms of three years upon the expiry of the said term, unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the terms of the letter of appointment.

(G) NOMINATION, APPOINTMENT, RE-ELECTION AND REMOVAL PROCEDURES

To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities which, in particular, are set out as follows:–

- (i) participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;
- (ii) taking the lead where potential conflicts of interests arise;
- (iii) serving on the Audit Committee, the Remuneration Committee and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board committees, if invited;
- (iv) bringing a range of business and financial experience to the Board, giving the Board and any committee on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board/committee meetings;
- (v) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;
- (vi) ensuring the committees on which he or she serves to perform their powers and functions conferred on them by the Board; and
- (vii) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director with such qualifications or expertise as required under Rule 3.10(2) of the Listing Rules.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. Every Director is subject to the provisions of retirement from office by rotation at an annual general meeting at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of members held immediately after his or her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT (CONTINUED)

DIVIDEND POLICY

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow Shareholders to participate in the Company's profit and for the Company to retain adequate reserves for the Group's future growth. In proposing any dividend payout, the Company would consider various factors including but not limited to the Group's overall results of operation, financial condition, working capital requirements, capital expenditure requirements, liquidity, future expansion plans, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group.

Any declaration and payment as well as the amount of the dividends will be subject to any restrictions under the applicable laws and the Company's constitutional documents. The Company does not have any pre-determined dividend distribution proportion or distribution ratio. Any future declarations of dividends may or may not reflect the Company's historical declarations of dividends and will be at the absolute discretion of the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. In line with the development of the Company and for the enhancement of corporate governance of the Company, the chairman of the Board, being Mr. Wong Chit On, is responsible for the management of the Board by providing leadership for the Board and has taken primary responsibility for ensuring that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with Shareholders and that their views are communicated to the Board as a whole, and the chief executive officer of the Company, being Mr. Han Weining, is responsible for the day-to-day management of business of the Group.

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("Uni-1"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment and to suit different commercial needs.

Mr. Tse Kam Fai ("Mr. Tse"), the representative of Uni-1, was appointed as the named Company Secretary.

Ms. Zhang Lin, the CEO Assistant, is the primary point of contact at the Company for the Company Secretary.

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Tse has taken no less than 15 hours of relevant professional training for the year ended 31 March 2019.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES

In accordance with the requirements of the Listing Rules, the Company has established Board committees in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and monitor the Group's financial reporting process, risk management and internal control systems. The members of the Audit Committee are Mr. Lam Ying Hung Andy, Mr. Wang Chen and Ms. Li Mingqi, all being independent non-executive Directors. Mr. Lam Ying Hung Andy is the chairman of the Audit Committee.

The Company's annual results for the year ended 31 March 2019 have been reviewed and discussed by the Audit Committee.

For the year ended 31 March 2019, the Audit Committee has held 3 meetings. The work performed by the Audit Committee during the year included reviewed the Group's annual financial statements for the year ended 31 March 2018 and the interim financial statements for the six months ended 30 September 2018; reviewed the terms of engagement of external auditor of the Company; recommended to the Board, for the approval by the Shareholders, of the re-appointment of the auditor of the Company; and discussed and confirmed with the management the effectiveness of the Group's financial reporting process, risk management and internal control systems. The attendance record of each member of the Audit Committee is set out below:

	Number of Audit Committee meetings attended/held	Attendance ratio
Mr. Lam Ying Hung Andy	4/4	100%
Mr. Wang Chen	4/4	100%
Ms. Li Mingqi	4/4	100%

REMUNERATION COMMITTEE

The Remuneration Committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The members of the Remuneration Committee are Ms. Li Mingqi, Mr. Lam Ying Hung Andy and Mr. Wang Chen, all being independent non-executive Directors. Ms. Li Mingqi is the chairperson of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the Company's remuneration policy and structure for all Directors and senior management; to consider and advise on the recommendations regarding remuneration, bonuses and other compensation payable to all Directors and senior management; to review and approve the management's remuneration proposal; to make recommendations on performance evaluation procedure for determining remuneration of Directors and senior management. The Remuneration Committee shall ensure the Company has a formal and transparent procedure for developing remuneration policy of all Directors and senior management and none of the Directors is involved in determining his/her own remuneration. The Remuneration Committee has adopted the approach made under B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual executive Director and senior management of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

For the year ended 31 March 2019, the Remuneration Committee has held 1 meeting. The work performed by the Remuneration Committee during the year included reviewed the existing policy and structure of the remuneration for the Directors and senior management of the Company. The attendance record of each member of the Remuneration Committee is set out below:

	Number of Remuneration Committee meetings attended/held	Attendance ratio
Ms. Li Mingqi	1/1	100%
Mr. Lam Ying Hung Andy	1/1	100%
Mr. Wang Chen	1/1	100%

The remuneration of the senior management (including Directors) of the Company for the year ended 31 March 2019, by band is set out below:

Remuneration	Number of Individuals 2019
HK\$1 to HK\$1,000,000	7
HK\$1,000,001 to HK\$1,500,000	–
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	–
HK\$2,500,001 to HK\$3,000,000	–
Over HK\$3,000,000	1
	9

CORPORATE GOVERNANCE REPORT (CONTINUED)

NOMINATION COMMITTEE

The Nomination Committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The members of the Nomination Committee are the independent non-executive Directors, Mr. Wang Chen, Mr. Lam Ying Hung Andy and Ms. Li Mingqi. Mr. Wang Chen is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to (1) review the structure, size and diversity (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (2) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (3) assess the independence of the independent non-executive Directors; (4) make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

For the year ended 31 March 2019, the Nomination Committee has held 1 meeting. The work performed by the Nomination Committee during the year included: reviewed the structure, size and composition of the Board; considered the independence of independent non-executive Directors; and made recommendations to the Board on the re-election of retiring Directors at the 2018 AGM. The attendance record of each member of the Nomination Committee is set out below:

	Number of Nomination Committee meetings attended/held	Attendance ratio
Mr. Wang Chen	1/1	100%
Mr. Lam Ying Hung Andy	1/1	100%
Ms. Li Mingqi	1/1	100%

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Company and Directors; and
- (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKING FROM CONTROLLING SHAREHOLDERS

As disclosed in the prospectus of the Company dated 30 March 2012 ("Prospectus"), to protect the Group from any potential competition, Mr. Wong Chit On and Excel Time ("Covenantors") have executed a deed of non-competition undertaking ("Non-competition Undertaking") in favour of the Company on 25 March 2012 pursuant to which the Covenantors have, among other matters, undertaken to the Company (for itself and for the benefit of the subsidiaries) that each of the Covenantors and their respective associates shall not engaged in any business which will or may compete with the business currently and from time to time engaged by the Group. Details of the Non-competition Undertaking have been set out in the paragraph headed "Relationship with controlling shareholders — Non-competition Undertaking" of the Prospectus.

The Company has received the annual declaration from each of the Covenantors in respect of their respective compliance with the terms of the Non-competition Undertaking during the year ended 31 March 2019. The independent non-executive Directors, having reviewed the annual declarations and made reasonable enquiry, were satisfied that the Covenantors have complied with the terms of the Non-competition Undertaking during the year ended 31 March 2019.

INVESTOR COMMUNICATIONS AND SHAREHOLDERS' RIGHTS

The Company recognizes the importance of maintaining a timely communication and transparent reporting to the Shareholders and/or investors.

The Company maintains an on-going dialogue with the Shareholders and/or investors by various communication channels, including but not limited to, general meetings, annual and interim reports, announcements and circulars. The Company publishes all corporate communications on the Company's website at www.synertone.net, and on the website of the Stock Exchange at www.hkexnews.hk.

In compliance with the CG Code, notice will be given to the Shareholders for annual general meeting at least 20 clear business days before the meeting and notice will be given for all other general meetings at least 10 clear business days.

All general meetings of the Company have been conducted by way of poll and detailed procedures for conducting a poll were explained at the commencement of the meeting. The poll voting results will be published by way of an announcement immediately following the relevant general meeting.

The procedures for Shareholders to convene and put forward proposals at an annual general meeting or extraordinary general meeting are set out in Article 58 of the Articles of Association, which can be accessed on the Company's website at www.synertone.net or on the website of the Stock Exchange. Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

During the year ended 31 March 2019, there were no changes in the Company's constitutional documents.

CORPORATE GOVERNANCE REPORT (CONTINUED)

ACCOUNTABILITY AND AUDIT

The Directors have included a management discussion and analysis of the Group's performance for the year ended 31 March 2019 under the section headed "Management Discussion and Analysis" of this annual report.

AUDITOR'S REMUNERATION

For the year ended 31 March 2019, the total fee in respect of audit services provided by HLB Hodgson Impey Cheng Limited, the auditor of the Company, was approximately HK\$1.0 million.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group for the year ended 31 March 2019 and confirm that the financial statements give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The statement of the auditor as to its responsibility for the financial statements is set out in the Independent Auditor's Report set out on pages 54 to 59 of this annual report. The Directors have prepared the financial statements on a going concern basis.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board's Responsibilities for the Risk Management and Internal Control Systems

The Board acknowledges that it is responsible for the risk management and internal control systems and oversees such systems on an ongoing basis, while ensuring a review of the effectiveness of these systems of the Group is conducted at least annually. The scope of such review covers all material controls, including financial, operational and compliance controls. The Group's risk management and internal control systems are designed to manage risks rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee. The management has provided a confirmation to the Audit Committee on the effectiveness of these systems for the year ended 31 March 2019 and the Audit Committee has recommended the Board for approval of the confirmation of the management.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Main Features of the Risk Management Systems

The Company recognises that good risk management is essential for the long-term and sustainable growth of a business. The Group has established a governance structure and the major responsibilities of each role of the structure are summarized below:



Role	Major Responsibilities
Board	<ul style="list-style-type: none"> – determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives; – oversees management in the design, implement and monitoring of the risk management and internal control systems; – oversees the Group's risk management and internal control systems on an ongoing basis and ensures the Company establishes and maintains appropriate and effective risk management and internal control systems;
Audit Committee	<ul style="list-style-type: none"> – reviews the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance controls; – reviews the emerging risks of the Group annually, and the risk management and the internal controls in place to address those risks; – discusses the risk management and internal control systems with management of the Group to ensure that the management of the Group has performed its duty to have an effective systems; – considers major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the Group's management's response to these findings; – implements any remedial plans recommended by the management should there be any internal control deficiencies;

CORPORATE GOVERNANCE REPORT (CONTINUED)

Management	<ul style="list-style-type: none"> – designs, implements and ongoing assesses the Group's risk management and internal control systems; – gives prompt responses to, and follow up the findings on risk management and internal control matters as delegated by the Board, on Audit Committee's initiative or raised by the external risk management and internal control review advisor(s); – provides confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems;
Risk Owners	<ul style="list-style-type: none"> – ultimately accountable for ensuring the risk is managed appropriately; – prepare their respective operating plans pursuant to corporate objectives for consideration; and – responsible for, or oversight of, activities to manage each identified risk.

In addition, the Company has engaged external consultant to conduct a review of the effectiveness of the risk management and internal control systems for the year ended 31 March 2019.

Main Features of the Internal Control Systems

The Company has in place an internal control system which is compatible with the 2013 committee of sponsoring organisation of the Trendway Commission (COSO) framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

Control Environment	– a set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
Risk Assessment	– a dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
Control Activities	– actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
Information and Communication	– internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
Monitoring	– ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Process used to Identify, Evaluate and Manage Significant Risks

- (1) Understand the business objective and update the risk assessment criteria and relevant risk items.
- (2) Review the existing risk management mechanism, identify areas for enhancement and refine the mechanism if necessary.
- (3) Identify relevant risks and update the identified risks in the risk register in response to the changes in the Company's business and the external environment.
- (4) Rating for the impacts and inherent likelihood of each identified risks, priorities the identified risk items and identify the responsible risk owners.
- (5) Analyse the counter measures which have been put in the risk response (ranking) table based on risk priorities.

All high risk items should be reduced or eliminated by mitigation actions while all medium risk items should be considered for mitigation which subject to a cost benefit analysis.

- (6) Estimate the initial and ongoing costs for mitigation by comparing with the estimate cost of non-mitigation and consider all risk mitigation options. Once the decision to mitigate the risk has been made and the strategy is identified of each risk item, a mitigation plan should be developed.
- (7) Prepare for the risk assessment results, which covers significant control failings or weaknesses that have been identified, which have a material impact on the Company's financial performance or condition, and present the same to the Audit Committee.
- (8) Develop the ongoing risk mitigation plan for the top prioritised (significant) risk items based on the risk assessment results.

In achieving sound and effective risk management and internal control systems, employees are obliged to respect all applicable legislation, rules and regulations, and to follow certain policies and procedures.

For the year ended 31 March 2019, the Board considered the risk management and internal control systems of the Company are effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of such review covers the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting functions and their attitude against internal control of the Group. The Board will continue to work with the management to discuss and follow-up on the status of remediation of the internal control weaknesses and to monitor the risks of the Group in the coming years.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Whistleblowing Policy

The Group relies on each of its employees, at all levels, to monitor the quality of the Group's daily operation and compliance with relevant laws and regulations. The Group considers recommendations from employees for improving the Group's practices and controls and communicates policy changes and other matters of the Group in a timely basis.

In addition, the Company has adopted a whistleblowing policy, under which employees and those who deal with the Company are provided with ways to raise their concerns about possible improprieties in any matter relating to the Company without fear of reprisal or victimization, and in a responsible and effective manner. Written complaints can be lodged directly to the chairman of the Audit Committee and copied to the Company Secretary. The chairman of the Audit Committee shall convene a meeting to decide whether and/or how to carry out any necessary investigation and, depending upon the circumstances, consider to nominate investigating officer or to set up a special committee to investigate the matter independently.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group complies with the requirements of the SFO and the Listing Rules for the handling and dissemination of inside information. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in the announcements or circulars of the Company are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

The Group has adopted and implemented written policy and procedures on handling and dissemination of inside information. Certain measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of disclosure requirements, which include the following:

- The Group has established the inside information team (the "Inside Information Team") to identify, assess and escalate potentially inside information to the attention of the Board.
- A reporting channel has been set up for employees to use upon they become aware of actual or potentially inside information ("Information"). They must report to their respective divisional disclosure officers, or the Inside Information Team of the Information at the possible earliest time. Divisional disclosure officers shall then conduct preliminary assessment of the Information received. Upon notification of Information, the Inside Information Team reviews and decides whether the Information must be disclosed, as well as when and how the Information shall be released and gives recommendation to the Board. The Board reviews the recommendation from the Inside Information Team and decides whether the Information should be disclosed; and/or any other appropriate actions.
- The Group has designated officers with appropriate skills and training to speak on behalf of the Group when communicating with media, analysts or investors.
- The Group has strict prohibition on unauthorized use or disclosure of confidential information. Such prohibition is included in the employment agreements for all employees.
- Officers/relevant employees are given access to a sensitivity list identifying factors or developments which are likely to give rise to the emergence of inside information. Trainings are provided to them on a regular basis to ensure that they are familiar with the procedures as well as their relevant disclosure duties and obligations.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Internal Audit Function

The Company currently does not assign any specialized staff to monitor the internal control system of the Company. The Board has reviewed, on an annual basis, the need for an internal audit function and is of the view that in light of the size, nature and complexity of the business of the Group, as opposed to diverting resources to establish a separate internal audit department, it would be more cost effective to appoint external independent professionals to perform independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

On behalf of the Board

Wong Chit On

Chairman and Executive Director

28 June 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING SCOPE AND STANDARD OF THE REPORT

This environmental, social and governance report was prepared in accordance with “comply or explain” provisions set out in Appendix 27 “Environmental, Social and Governance Reporting Guide” of the Listing Rules and the principles of materiality, quantitative, balance and consistency. This report intends to summarise the philosophy of the Group on environment, social and governance aspects and relevant overall performance of the business operations of the Group in the PRC during the year ended 31 March 2019 (the “Reporting Year”). For the philosophy and performance of corporate governance of the Group, please refer to the “Corporate Governance Report” in the 2019 annual report.

This report was prepared based on the information obtained from or implied in official documents or statistic report of the Group, covering issues concerned by stakeholders of the Group. To further understand their needs, the Group actively communicates with its stakeholders, including shareholders, the government, employees, clients, suppliers, the community and the public. Matters related to environment, social and governance which pose significant influence on the stakeholders were evaluated and identified through the combination of group discussions and phone interview.

Wankesi Automation Information (China) Co. Limited (萬科思自控信息(中國)有限公司) (“Wankesi”), being one of the Group’s major operating companies, is quite involved in key concern areas as discussed in the Company’s “Environmental, Social and Governance Report” for the Reporting Year and represents a higher percentage of revenue of the Group for the Reporting Year. Therefore, the abovementioned company is highly associated in regard to environment, society and governance. As a result, disclosures were made around policies and performance of the abovementioned company in three environmental areas and eight social areas in this report for the Reporting Year.

ENGAGEMENT WITH STAKEHOLDERS

The Group proactively listened to the views of stakeholders to ensure continuous improvement. The Group strived to communicate with internal and external stakeholders through various communication channels, so as to understand and respond to their expectations and concerns, and to strike a balance between their respective interests, which in turn enabled us to determine our business development direction in the long run.

Stakeholders	Expectations and concerns	Communication and response
Shareholders	<ul style="list-style-type: none">Financial resultsCorporate transparencySound risk control	<ul style="list-style-type: none">Financial report and corporate announcementsDaily information disclosureOptimization of risk management and internal control
The government	<ul style="list-style-type: none">Being law-abidingPaying tax in accordance with the lawComplying with policies in relation to real estates in the PRC	<ul style="list-style-type: none">Operation in compliance with the lawMaking timely tax payment in fullMonitoring whether it is in compliance with local laws and regulations
Employees	<ul style="list-style-type: none">Career development platformRemuneration and benefitSafe working environment	<ul style="list-style-type: none">Promotion mechanismCompetitive remuneration and benefit packagesProvision of training to staff and enhancing their safety awareness

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

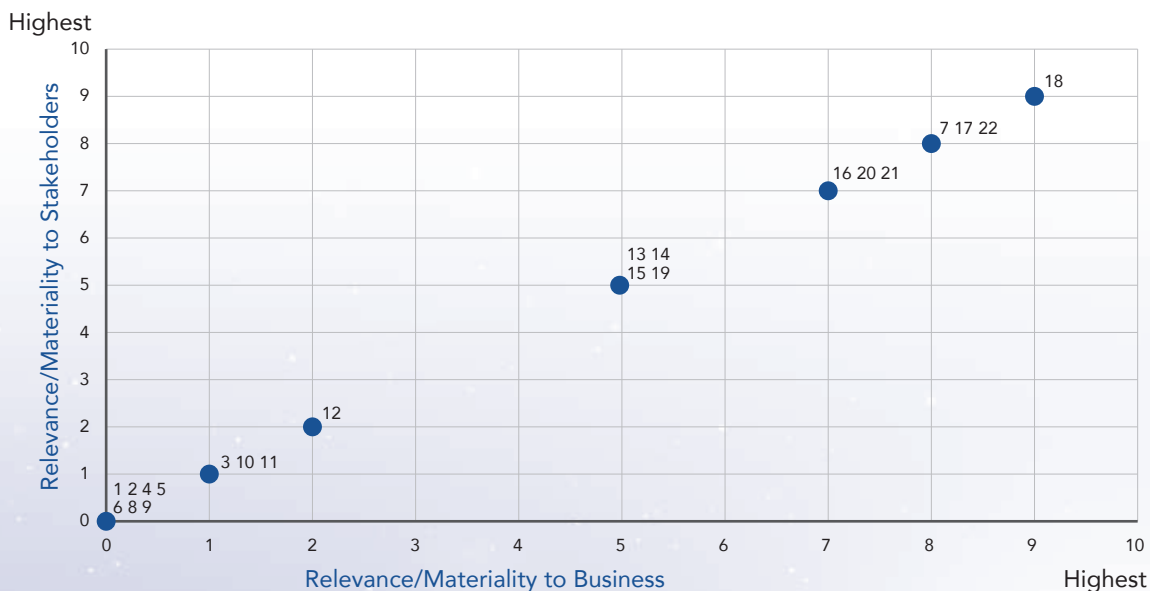
Stakeholders	Expectations and concerns	Communication and response
Clients	<ul style="list-style-type: none"> High-speed wireless broadband connectivity Customer information security Customer interest protection 	<ul style="list-style-type: none"> Upgrade for Synertone 1 satellite's gateway system Customer privacy protection Marketing in compliance with the law
Supplier	<ul style="list-style-type: none"> Collaboration integrity Business ethics and creditworthiness 	<ul style="list-style-type: none"> Building a responsible supply chain Performing contracts in accordance with the law
The community and the public	<ul style="list-style-type: none"> Environmental friendliness Employment opportunities 	<ul style="list-style-type: none"> committing to building an environmentally-friendly corporation Provision of employment opportunities

MATERIALITY ASSESSMENT

During the Reporting Year, the Group carried out a materiality assessment to the environment, society and governance related issues. With reference to its actual business and industrial characteristics, the Group identified and recognized 22 issues in relation to the environment, society and governance, and invited internal and external stakeholders to give rating on the materiality of such 22 issues. After consolidating the rating results of stakeholders and the Group's sustainable development target, our management concluded in a report the materiality priority of these issues and prepared a materiality matrix chart.

The result of materiality assessment will be used by the Group as a guidance when developing future environmental, social and governance working projects and targets, with a view to creating sustainable value for stakeholders.

The Group's environmental, social and governance materiality matrix chart for the Reporting Year is as follows:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Environmental issues	Social issues	Governance issues
1. Greenhouse gas emissions	9. Engagement with local community	17. Economic value created
2. Energy consumption	10. Community investment	18. Corporate governance
3. Water consumption	11. Occupation health and safety	19. Anti-corruption
4. Waste	12. Supply chain labor standard	20. Supply chain management
5. Environmental impact created by our business	13. Training and development	21. Customer satisfaction
6. Green building certification	14. Employee benefit	22. Customer privacy
7. Engagement with customers on environmental issues	15. Inclusion and equal opportunity	
8. Use of chemicals	16. Attract and retain talents	

ENVIRONMENT

The Group is committed to ensuring continuous growth of its business and at the same time maintaining sustainable development of the environment. The Group conducts internal trainings and internal review with reference to relevant requirements of ISO14000 Environmental Management System. The Group strives to make environmental protection a self-motivation to every employee, making the spirit of environmental protection a part of corporate culture. The Group has launched a number of measures for environmental protection, with an aim to optimising emission management and enhancing efficient use of resources.

Emission Management

The Group strictly complies with relevant national and local laws and regulations on environmental protection and pollutant emissions, including "Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)" and "Regulations on Construction Projects Environmental Protection (建設項目環境保護管理條例)" during business operation. The Group's production process does not involve wastewater discharge. Domestic sewage discharged in daily operation and exhaust gases emitted in production process comply with relevant local standards. For example, as verified by Shenzhen Luohu District Environmental Protection and Water Affair Bureau (深圳市羅湖區環境保護和水務局), the sewage discharge of the Group's subsidiary in Shenzhen, 協同衛星通信(深圳)有限公司, has met Level 3 standard of second time zone (第二時段三級標準) of "Emission Limits of Water Pollutants (水污染物排放限值)" (DB44/26-2001) in Guangdong province and the exhaust gas emission has met the standard of second time zone (第二時段標準) of "Emission Limits of Air Pollutants (大氣污染物排放限值)" (DB44/27-2001) in Guangdong province.

All domestic sewage is discharged through sewage pipelines, with the sewage discharge pipelines and sewage treatment equipment being maintained and repaired regularly. Meanwhile, circulating water is used in cooling, greening and cleaning to minimise discharge of wastewater. Thus the total water consumption of the Group has been effectively reduced.

After centralising and collecting soldering tin exhaust gases during the production process, high-efficiency particulate air filter (HEPA) is used in filtering process. The gas is then led to direct emission through windows after the processing performance reaches 99.9%. In addition, the Group arranges use of vehicles reasonably and promotes green travelling to reduce the emission of greenhouse gas. Through these efforts, the Group is aiming to enhance the environmental protection awareness of its staff, and as a result, the air pollution emissions and greenhouse gas emissions of the Group have been effectively reduced.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Reporting Year, the main air pollution emissions of the Group from vehicle used during operation are set out below:

Emission Type and Related Emission Data

Types of air pollutants	Unit	2019	2018
NO _x	Kg	20.36	37.17
SO _x	Kg	0.06	0.10
PM	Kg	1.95	3.56

During the Reporting Year, the greenhouse gas emissions and intensity of the Group during operation are set out below:

Greenhouse Gas Emissions and Intensity

Scope of greenhouse gas emission (note)	Unit	2019	2018
Scope 1 Direct greenhouse gas emissions and reduction	Kg	9,243	16,174
Scope 2 Energy indirect greenhouse gas emissions	Kg	402,039	427,674
Scope 3 Other indirect greenhouse gas emissions	Kg	4,118	7,142
Total greenhouse gas emissions	Kg	415,400	450,990
Greenhouse gas emissions intensity	Kg/total annual production	5.62	6.62

Note:

The greenhouse gas emissions (direct and indirect) and reduction can be divided into the following three independent scopes:

Scope 1: the greenhouse gas emissions directly generated from businesses owned or controlled by relevant companies, which include: (i) greenhouse gas emissions generated from vehicles controlled by relevant companies; and (ii) trees planted by relevant companies in the Reporting Year that are used for greenhouse gas reduction;

Scope 2: "indirect energy" greenhouse gas emissions resulted from electricity, heat energy, freezing and steam consumed (purchased or acquired) by relevant companies; and

Scope 3: other indirect greenhouse gas emissions occurred outside the relevant companies, including upstream and downstream emissions.

Unqualified printed circuit boards and electronic components in production process are returned to suppliers for processing; tin scrap and waste packages are collected and delivered to qualified waste recycling units for processing. Active measures for recycling and integrated usage are also adopted to avoid secondary pollution. The Group promotes "Paperless" office and upholds the principles of 3R ("Reduce", "Reuse", "Recycle") in paper usage. The Group encourages staff to read documents through electronic equipment, print relevant documents after checking, select double-sided printing whenever possible, and use both sides of paper so as to reduce waste of paper. The Group's total non-hazardous wastes have been effectively reduced through waste recycling and "Paperless" office policy. The Group is devoted to promoting clean techniques and formula and using less polluting raw materials in product design. New techniques, new technology and new equipment are adopted to maximise utilisation of raw materials and resources with an aim to avoid formation of scraps in production process, so as to effectively reduce hazardous wastes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Reporting Year, the total waste generated and its intensity were set forth as follows:

Total Waste and Intensity

Types of waste	Unit	2019	2018
Total amount of non-hazardous waste	Kg	23,100	39,107
Non-hazardous waste intensity	Kg/total annual production	0.31	0.57
Total amount of hazardous waste (note)	Kg	N/A	N/A
Hazardous waste intensity	Kg/total annual production	N/A	N/A

Note:

The hazardous waste produced by the Group's business are delivered to qualified waste recycling units for processing as the Group generated only an insignificant amount of hazardous waste, which did not have any substantial impact to the environment, thus no data is disclosed.

In the Reporting Year, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to the Group's air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that have significant impact, such as "Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)" and "Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法)". In addition, there was no report of significant fines or non-monetary sanctions as the result of non-compliance with relevant laws and regulations in the Reporting Year.

Use of Resources

The Group encourages staff to implement the concept of environmental protection, participate in environmental protection work and enhance the efficient use of resources. The Group keeps raising staff's consciousness of environmental protection through different communication channels. The Group has launched resource-saving measures in its production activities and daily office operation, including:

- Using zone switch for lighting and air-conditioning systems so as to conserve energy consumption;
- Maintaining the temperature of air-conditioners at 25 degree Celsius in summer so as to conserve energy consumption;
- Switching off air-conditioning systems and lighting equipment in workplace when they are idle so as to conserve energy consumption;
- Reducing idle time for devices so as to conserve energy consumption; and
- Optimising purchase process and improving purchase system to reduce inventory storage so as to conserve energy consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Reporting Year, the total energy consumption of the Group and its intensity were set forth as follows:

Total Energy Consumption and Intensity

Use of Resources	Unit	2019	2018
Total energy consumption	KWh	620,000	780,000
Energy consumption intensity	KWh/total annual production	8.38	11.44

The Group has adopted water-saving measures and established internal guidance. Plans for water-saving targets are developed annually. Water-saving measures are implemented to enhance daily maintenance and management of equipment consuming water, with the aims of avoiding "running", "spraying", "dripping" and "leakage" of water and the occurrence of "prolonged water flow" and ensuring employees comply with principles of conservation and efficient use of water when using water resources. Once any malfunction is found in water-consuming equipment, professionals will be notified immediately for repairing. The Group promotes the use of circulating water to minimise the use of tap water. The Group also examines the situation of water usage regularly for the investigation of the reasons for overconsumption and the statistics and announcement on the status of water consumption and conservation.

During the Reporting Year, the total water consumption of the Group and its intensity were set forth as follows:

Total Water Consumption and Intensity

Use of Resources	Unit	2019	2018
Total water consumption	m ³	6,520	6,710
Water consumption intensity	m ³ /total annual production	0.09	0.10

Large amount of packaging materials are used in the Group's products. To reduce waste generation, the Group strives to reuse all paper boxes and filling materials in packages.

During the Reporting Year, the total packaging materials used by the Group and intensity per production unit were set forth as follows:

Total Packaging Materials and with Intensity Per Production Unit

Use of Resources	Unit	2019	2018
Total packaging materials	Kg	7,800	5,804
Intensity of packaging materials	Kg/total annual production	0.11	0.09

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Environment and Natural Resources

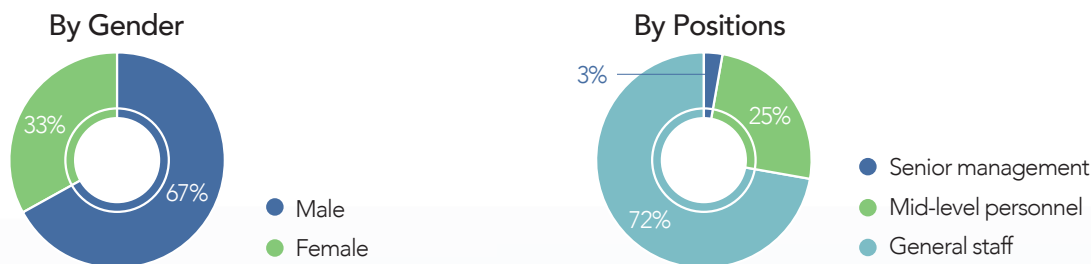
The Group has stringent control on production procedure to ensure compliance with local environmental laws and regulations. No material non-compliance with "Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)" and other applicable laws and regulations was recorded during the Reporting Year. The Group will strive to reduce the impacts on the environment and natural resources from aspects including operation and management by continually perfecting environmental protection, energy conservation and emission reduction management system with emphasis on controlling the emission of pollutants during production process.

EMPLOYMENT AND LABOUR PRACTICES

Employees are the most valuable capital for achieving the target of the Group. The Group is committed to providing a fair and safe working environment for employees. The Group is always attentive and supportive to employees. The Group continuously provides diversified skill trainings and career development opportunities for employees so as to achieve harmony and mutual win between employees and the Group.

Employment

The Group strictly complies with laws and regulations related to employment in mainland China and Hong Kong, such as "Labour Law of the People's Republic of China (中華人民共和國勞動法)", "Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法)" and "Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法)" as well as Employment Ordinance and Mandatory Provident Fund Schemes Ordinance in Hong Kong, to ensure the provision of fair employment and promotion opportunities to employees. During the Reporting Year, there were no violations of laws and regulations relating to labour and employment by the Group. The Group upholds the performance-based employment concept that "capable person replaces incapable one". Employment and dismissal policy will not be affected by race, gender, age, religious belief, disabilities or family status of applicants. As at 31 March 2019, the Group had 159 employees in total, who located in places like Hong Kong, Shenzhen, Shanghai and Hangzhou. The ratio of male to female staff was approximately 7:3. The Group has a qualified team comprising talents with doctoral degree, master degree, bachelor degree and college graduates. Distribution of positions of staff was as follows: senior management accounted for 3%, mid-level personnel accounted for 25% and general staff accounted for 72%.



The Group treasures and respects talented personnel, and endeavours to offer comprehensive and competitive remuneration package and benefits to attract, retain and motivate outstanding employees. The Group benchmarks employees' compensation according to its internal situation and the external labour market of related fields, sectors and professions, to ensure their compensation are reasonable and consistent with market level. Remuneration adjustments are based on the Group's operating results, the level of the staff's position, personal competency and performance and social development level. Discretionary performance bonus is offered to staff according to annual appraisal as recognition of their contribution and as motivation for achieving self-improvement. The Remuneration Committee is responsible for reviewing the management's proposal of the Group's remuneration adjustment and discretionary performance bonus and share options as incentives to senior management with outstanding performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The Group emphasises the wellbeing of its employees, caring for employees from various aspects. The trade union of Wankesi was established in 2013, which was organized by employees. The trade union was founded to care for employees' work and life, organize employees to participate in team building activities, sports activities, public welfare activities, etc., communicate with the Company from the perspective of employees, and handle employee complaints, suggestions and so on. The activities are categorized as follows:

- Providing welfare canteen and welfare supermarket for employees, in which food ingredients are sourced from large supermarkets so that employees could have healthy and safe meals;
- Providing commute transport and dormitory for non-local employees;
- Organising birthday event each month for employees to celebrate birthday in the month and to share cakes, play games and receive birthday gifts;
- Hosting annual Chinese New Year dinners, team building barbecue activities and badminton competition activities;
- Providing support to team-building activities of departments, organising travel events for departments each year to foster team spirit; and
- Establishing a great variety of different sports clubs, modern fitness club, film club, reading club and chess club, to enhance communication and friendship between employees of different levels.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Reporting Year, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to the Group's compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have significant impact. The Group strictly complied with local laws and regulations relating to employment, such as "Labour Law of the People's Republic of China (中國人民共和國勞動法)" and "Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法)". In addition, there was no report of significant fines or sanctions as the result of non-compliance with relevant laws and regulations during the Reporting Year.

Occupational Health and Safety

The Group pays high attention to occupational health of staff and targets zero accident in operation. The Group strictly complies with applicable laws and regulations such as "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法)" and Occupational Safety and Health Ordinance of Hong Kong. The Group is committed to providing a healthy and safe working environment to prevent its employees from suffering occupational hazards. During the Reporting Year, there was no non-compliance matter in relation to the occupational health and safety by the Group. To prevent occurrence of disasters and accidents, the Group enhances the promotion and trainings on labour protection and precautions and prevention and control of occupational diseases. First-aid and fire drill exercises are conducted regularly to persistently raise the occupational safety awareness of employees. The Group also reinforces checkings on important positions to promote the proper use of labour protection supplies and protect employees' health and safety.

To ensure employees' safety in production, the following mechanism has been established: Management System for Safe Production is established to specify the leaders of the Group as the first person in charge of safe production. A safety committee is established for the identification, prevention and recording of safety risks. Machines and equipment are maintained regularly and assigned to person-in-charge. Trainings on safe operation standards of positions are enhanced to ensure standardised operation.

The Group has also implemented various measures to create healthy indoor working environment for employees. For example, professional cleaners are required to clean the office an hour before working hour begins every day and to clean common facilities such as lavatories and conference rooms regularly as required. Air-conditioning system and air filters are cleaned regularly to maintain good indoor air quality. Professional cleaning companies are engaged to clean carpets and maintain the floor in the workplace. Professional drinking water system is installed with water quality checked and announced each quarter.

In addition to general social insurance like medical and pension insurance, the Group has also purchased critical illness insurance for employees of certain subsidiaries and traffic accident damage insurance for frequent travelling employees. Annual physical examination is arranged for all employees and occupational health check is arranged for employees at certain special positions. The Group monitors work-related injury rate continuously and considers relevant data as key indicators for the evaluation of safety performance. During the Reporting Year, the Group had no work-related fatal incident. Besides, loss of working days caused by work injuries in the subsidiaries in Hong Kong and Shenzhen was less than 1 day.

The Group actively promotes establishment of safe production and occupational health and safety system. For example, Synertone Communication Technology Limited (協同通信技術有限公司) and 悉雅特萬科思自動化(杭州)有限公司, being the Group's subsidiaries, have obtained Work Safety Standardization Certificate (Level 3) (安全生產標準化證書(三級)), and OHSAS18001 Occupational Health and Safety Management System Certification and Work Safety Standardization Certificate (Level 2) (安全生產標準化證書(二級)) respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Reporting Year, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to providing a safe working environment and protecting employees from the Group's occupational hazards that have significant impact. The Group strictly complied with local laws and regulations relating to health and safety, such as the "Safe Production Law of the People's Republic of China (中華人民共和國安全生產法)" and the "Regulations on Work-Related Injury Insurance of the People's Republic of China (中華人民共和國工傷保險條例)". In addition, there was no report of significant fines or sanctions as the result of non-compliance with relevant laws and regulations during the Reporting Year.

Employee Development and Training

The Group believes that nurturing talents lays the foundation for corporate development. As such, the Group actively promotes talent strategy of "Respecting science, respecting knowledge, continuous learning, striving for performance, team work, respecting individuality" and regards talents as strategic and value-adding resources of first priority to conduct in-depth development and operation. The Group focuses on nurturing talents and management staff and assigns them work with flexibility. On-the-job training and career opportunities are emphasised. Through serialised talent training programs including occupation development training camp, induction programs, manager research camp and senior management motivation camp, supplemented with the knowledge sharing platform of Synertone Online College, a training system covering four major aspects, namely online training, daily training, focused training and external training, was established. The system provides rich resources to support career development and personal values of employees, and integrates the core values of "seeking mutual development, abiding by ethics, pushing the limits, pursuing effectiveness, efficiency, excellence" with the Group's daily work.

During the Reporting Year, directors, management and staff responsible for finance, accounting, laws and regulatory affairs in Hong Kong and Shenzhen subsidiaries of the Group have participated in relevant professional training courses organised by various professional organizations.

Labour Standards

The Group strictly complies with "Provisions on the Prohibition of Using Child Labour (禁止使用童工規定)", Employment of Children Regulations of Hong Kong and other laws and regulations related to labour standards. During the Reporting Year, there were no cases of violation of labour laws to recruit child labour and forced labour by the Group. The Group implements five-day work week encouraging employees to strike balance among health, work, social and family. To support self-development of employees, the Group provides flexible working hour arrangement for employees at certain positions. In addition to ordinary annual leaves and paid sick leaves, the Group also provides other leave arrangement like marriage leave, maternity leave, paternity leave and bereavement leave to employees for their relaxation and refreshment.

During the Reporting Year, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to prohibiting the Group from employing child and forced labour. The Group strictly complied with local laws and regulations relating to labour standards, such as the "Labour Law of the People's Republic of China (中華人民共和國勞動法)", "Provisions on the Prohibition of Using Child Labour (禁止使用童工規定)" and "Employment of Children Regulations (僱用兒童規例)". In addition, there was no significant fines or sanctions as the result of non-compliance with relevant laws and regulations in the Reporting Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

OPERATING PRACTICES

The Group insists on treating every detail in daily operation seriously in a responsible manner. From the areas of supply chain, product responsibility and anti-corruption, the Group keeps perfecting its operations management, persistently creating value for customers and benefits for the society.

Supply Chain Management

"Creativity", "Safety", "Environmental Protection", "Sustainable Development" are the main factors considered by the Group when choosing suppliers, monitoring their performance and communicating with them. Prior to the procurement of materials from the suppliers and in the course of tendering and quotation, the Group complied with laws and regulations such as the "Bidding Law of the People's Republic of China (中華人民共和國招標投標法)" as well as the procurement guidance to carry out strict examination procedures on the qualification of the suppliers. Suppliers' competencies and performance in respect of costing, quality, use of technologies, environmental protection awareness, moral conduct and social responsibility are examined through business meetings, factory visit and review of labour and employment status, random checking and cost calculation, ensuring the best products were offered by the most suitable supplier. The Group's purchasing committee takes part in the selection processes of key suppliers, material procurement tendering projects and procurement projects with strategic risk, and the final decisions of procurement contracts for key projects. The Group maintains close relationship and collaborates with suppliers and contractors to ensure that their operations fully comply with local laws and regulations environmentally and socially. The Group also shares the sustainable development guideline with them in order to guarantee their business activities are in line with the principles of sustainable development.

The Group requires its cooperating suppliers to obtain international certificates such as ISO9001 Quality Management System Certificate and ISO14001 Environmental Management System Certificate. Suppliers are required to provide environmental-friendly and non-hazardous materials, so that chemical materials contained in the Group's products would fall below the limits stipulated by the relevant laws and regulations or the Group's customers. The Group encourages its suppliers to implement a systematic environmental protection and life-cycle management for their products, achieving green design, green production and control the usage of different restricted materials from their origins, hence building up a green supply chain.

To prohibit suppliers from providing gifts, certificates, loans, hospitality, services or assistance in an improper manner, the Group requires its suppliers to follow and enter into a code of conduct for ethical standard and commercial behavior prepared by the Group and to comply with it. Suppliers are also required to comply with the local laws and regulations in relation to bribery. Moreover, in respect of terms and conditions for procurement, suppliers are required to comply with the laws and regulations relating to the prohibition of using child-labour, forced labour and occupational discrimination as set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work and the United Nations Guiding Principles on Business and Human Rights. The Group also monitors regularly the compliance of suppliers with those laws and regulations and guiding principles through self-declaration and on-site examination. Furthermore, the Group continuously measures and assesses suppliers' commitments to fulfill the above requirements through a supplier performance grading system.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Products Responsibility

The Group puts great emphasis on the protection of intellectual property. All of the Group's staff shall follow the internal policy guidance and their awareness of respecting third parties' intellectual property rights is emphasised. The Group possesses or is in the process of applying various patents (including invention patents, practical new design patents and exterior design patents) in relation to its self-developed communication systems and technologies and building intelligence and smart home products design. The Group protects intellectual property rights according to laws and regulations such as the "Patent Law of the People's Republic of China (中華人民共和國專利法)" and "Copyright Law of the People's Republic of China (中華人民共和國著作權法)". During the Reporting Year, there was no non-compliance matter in relation to the intellectual property rights by the Group or disputes with third parties on the intellectual property rights.

Ensuring data safety of the Group's customers is another important mission. In the Group's daily operation, the protection of clients' information resources remains top priority. Users' information resources are protected from unauthorized access, usage and leakage through different safety technologies and procedures. Electronic information containing clients' details is kept in the Group's server. All the paper-based documents are kept in a file room. The Group also adopts customer management measures and designates personnel responsible for the maintenance of clients' data. Clients' information will only be used legally for the relevant purpose based on provisions on personal data privacy. The Group assures that the personal and commercial data of the Group's customers are properly kept and used only for authorized commercial purpose, and can only be accessed by staff that are considered necessary. Moreover, the Group's cooperating suppliers shall comply with the same requirements.

The Group insists on delivering quality products to customers. Stringent review is carried out in the product development process. Procedures such as material inspection, semi-finished product inspection, finished product inspection, shipping inspection and process inspection etc. are strictly executed, ensuring the products are in good quality and fulfilled the safety and health requirement. Subsidiaries of the Group engaging in manufacturing have obtained ISO9001 Quality Management System Certificate. During the Reporting Year, the Group did not commit any material non-compliance or illegal events in relation to product safety.

For advertising and promotion, the Group strictly complies with the "Advertising Law of the People's Republic of China (中華人民共和國廣告法)" and the "Trademark Law of the People's Republic of China (中華人民共和國商標法)". The Group is devoted to providing customers with true and accurate information as well as fast and convenient user experience. The Group promotes its products and marketing activities and collects feedback through the use of various platforms such as official website, mobile APP, 3D products module, and social media including WeChat. When receiving complaint on its products or services, the Group will initiate investigation and studies on the complaint and opinion lodged by customers. Details will be passed to the relevant management personnel within 24 hours and the Group guarantees to give reply within a week. Meanwhile, the relevant sales team is responsible for collecting and consolidating customers' comments on the quality of services and goods etc. so as to prevent the problem from occurring again and solve the problem in a timely and satisfactory manner. During the Reporting Year, all the complaints the Group received on the products and services and other matters were settled promptly. The Group was also widely praised by its clients for professional skills and localized service with fast reaction.

During the Reporting Year, the Group was not aware of any material non-compliance with relevant rules and regulations relating to health and safety, advertising, labeling and privacy matters relating to products provided by the Group and methods of redress that have a significant impact. The Group strictly complied with local laws and regulations relating to product responsibility, such as the "Advertising Law of the People's Republic of China (中華人民共和國廣告法)" and the "Trademark Law of the People's Republic of China (中華人民共和國商標法)". In addition, there was no report of significant fines in the Reporting Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Anti-Corruption

The Group has formulated a code and guidance for business ethics, expressly stating the approach and requirements the Group adopted towards business ethics. The code for business ethics is included in the Staff Handbook. Any form of corruption, bribery, fraud and money laundering will not be tolerated. The relevant requirements will be explained to all new employees in their induction training. Relevant information is also available on the internal network of the Group for existing employees. The Group requires all its staff to adhere to a high standard of business ethics to protect the interest and business operation of the Group. During the Reporting Year, the Group was not aware of any non-compliance with relevant laws and regulations including the "Law of the People's Republic of China Against Unfair Competition (中華人民共和國反不正當競爭法)" and the "Interim Provisions on the Prohibition of Commercial Bribery (關於禁止商業賄賂行為的暫行規定)".

The Group has a whistle-blowing policy and system in place. Employees and stakeholders can report any inappropriate acts or dishonest behaviors (e.g. suspicion of corruption, fraud and other forms of criminal offence) directly to the chairman of the Audit Committee of the Board (an independent non-executive director of the Company), to ensure undergoing of individual investigation. During the Reporting Year, the Group did not receive any report of the above cases.

During the Reporting Year, none of the Group or its employees was involved in any legal proceedings relating to bribery, extortion, fraud or money laundering. The Group strictly complied with local laws and regulations relating to anti-corruption, such as "Law of the People's Republic of China Against Unfair Competition (中華人民共和國反不正當競爭法)" and "Interim Provisions on the Prohibition of Commercial Bribery (關於禁止商業賄賂行為的暫行規定)".

Community

The Group is committed to acting as a positive strength for the community in which it is operating and has been maintaining close communication and interaction with the community so as to contribute to the community from time to time.

Being a global responsible corporate citizen, the Group is dedicated to improving the image of the community and enhancing the sense of responsibility through community investments. All employees of the Group are encouraged to lend a helping hand to and support the local community and their neighborhoods.

INDEPENDENT AUDITOR'S REPORT



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**TO THE SHAREHOLDERS OF
SYNERTONE COMMUNICATION CORPORATION**
(Incorporated in the Cayman Islands limited liability)

OPINION

We have audited the consolidated financial statements of Synertone Communication Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 149, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment Assessment of Industrial Control System Business

Refer to note 18 and 17 to the consolidated financial statements.

The Group has goodwill and intangible assets of approximately HK\$50,566,000 and HK\$1,457,000 respectively relating to the industrial control system business as at 31 March 2019. Management performed impairment assessment of industrial control system business and concluded that an impairment loss on goodwill of approximately HK\$15,000,000 was recognised. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.

Our procedures in relation to the management's impairment assessment on included:

Evaluating of the independent valuer's competence capabilities and objectivity;

Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts;

Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and

Checking, on a sampling basis, the accuracy and relevance of the input data used.

We found that the key assumptions were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Allowance for expected credit losses assessment of trade receivables

Refer to note 23 to the consolidated financial statements.

The Group had trade receivables of approximately HK\$47,942,000 (2018: HK\$106,182,000) and provision for allowance for expected credit losses of approximately HK\$17,262,000 (2018: HK\$12,170,000).

In general, the trade receivable credit terms granted by the Group to the customers ranged between 30 to 180 days (2018: 30 to 180 days). Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for allowance for expected credit losses based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the allowance for expected credit losses assessment.

Our procedures in relation to management's allowance expected credit losses assessment of the trade receivables as at 31 March 2019 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;
- Checking, on a sample basis, the ageing profile of the trade receivables as at 31 March 2019 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with customers; and
- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We found the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Determination and presentation of discontinued operations and disposal of subsidiaries

Refer to note 9 and 36 to the consolidated financial statements.

The Group has disposed of Synertone 1 satellite communication business upon disposal of entire share capital of subsidiaries. During the year, the Group recognised profit for the period from discontinued operation of approximately HK\$338,003,000 including the loss on disposal of HK\$10,066,000. Management determined and presented the operating results up to the date of disposal and this loss on disposal of this business as discontinued operations in the consolidated statement of profit or loss for the year ended 31 March 2019.

We focused on this area due to materiality of these disposals and the significance of the discontinued operations to the consolidated financial statements as a whole.

Our procedures in relation to determination and presentation of discontinued operations:

- Understanding and evaluating management's assessment for determination and presentation of discontinued operations.
- Assessing the terms and conditions of the sales and purchases agreements and discussing with management with respect to the detail terms of the transactions.
- Assessing the appropriateness and completeness of disclosures of the loss on disposals of discontinued operations.

We found the determination and presentation of discontinued operations and loss on disposal of subsidiaries to be supportable by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Hon Koon Fai, Alex.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong, 28 June 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2019

	Notes	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>			
Revenue	5	81,005	84,771
Cost of sales		(54,224)	(57,261)
Gross profit		26,781	27,510
Other income	6	9,458	7,535
Other gains and losses	6	(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	7(c)	(49,573)	(69,401)
Impairment loss of trade receivables	7(c)	(16,746)	(12,576)
Impairment loss of intangible assets	7(c)	(1,742)	(47,403)
Impairment loss of goodwill	7(c)	(15,000)	(135,016)
Loss from operations		(125,619)	(308,856)
Finance costs	7(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	7	(134,805)	(321,540)
Income tax	8	2,986	21,472
Loss for the year from continuing operations		(131,819)	(300,068)
Profit/(loss) for the year from discontinued operation	9	338,003	(249,384)
Profit/(loss) for the year		206,184	(549,452)
Profit/(loss) for the year attributable to owners of the Company:			
– Continuing operations		(129,336)	(295,741)
– Discontinued operation		338,003	(249,384)
		208,667	(545,125)
Loss for the year attributable to non-controlling interests:			
– Continuing operations		(2,483)	(4,327)
– Discontinued operation		–	–
		(2,483)	(4,327)
		206,184	(549,452)
		HK cents	HK cents (restated)
Earnings/(loss) per share			
For continuing and discontinued operations			
– Basic	13	5.08	(16.28)
– Diluted	13	5.08	(16.28)
For continuing operations			
– Basic	13	(3.15)	(8.83)
– Diluted	13	(3.15)	(8.83)

The notes on pages 66 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

	2019 HK\$'000	2018 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 HK\$'000	2018 HK\$'000
Non-current assets			
Property, plant and equipment	15	49,584	99,867
Prepaid lease payments	16	8,297	9,098
Intangible assets	17	12,755	25,131
Goodwill	18	50,566	70,234
Interests in an associate	20	467	1,370
Available-for-sale investments	21	–	3,900
Prepayment for acquisition of property, plant and equipment	23	–	8,141
		121,669	217,741
Current assets			
Inventories	22	41,938	48,518
Trade and other receivables	23	131,095	285,739
Prepaid lease payments	16	201	215
Cash and cash equivalents	24	10,599	6,877
		183,833	341,349
Current liabilities			
Trade and other payables	25	57,648	100,851
Bank and other borrowings	26	104,221	171,655
Finance leases payable	27	551	190,112
Amount due to a director	29	1	1
Current taxation	30(a)	–	1,720
		162,421	464,339
Net current assets/(liabilities)		21,412	(122,990)
Total assets less current liabilities		143,081	94,751
Non-current liabilities			
Convertible bonds payable	28	–	18,467
Finance leases payable	27	124	223,419
Deferred tax liabilities	30(b)	3,646	7,234
		3,770	249,120
Net assets/(liabilities)		139,311	(154,369)
EQUITY			
Share capital	32(b)	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)

Approved and authorised for issue by the board of directors on 28 June 2019 and signed on its behalf by:

Wong Chit On
Director

Han Weining
Director

The notes on pages 66 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

Attributable to owners of the Company													
Notes	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Warrants reserve HK\$'000	Convertible bonds reserve HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2017	167,440	745,507	12,740	6,600	–	(90)	40,737	(82,057)	(28,316)	(596,245)	266,316	14,560	280,876
Comprehensive income													
Loss for the year	–	–	–	–	–	–	–	–	–	(545,125)	(545,125)	(4,327)	(549,452)
Other comprehensive income													
Exchange differences arising on translation of financial statements of overseas and PRC subsidiaries	–	–	–	–	–	–	–	–	36,336	–	36,336	1,488	37,824
Total comprehensive loss for the year	–	–	–	–	–	–	–	–	36,336	(545,125)	(508,789)	(2,839)	(511,628)
Transactions with owners													
Equity-settled share-based payments	–	–	841	–	–	–	–	–	–	–	841	–	841
Lapse of share option	–	–	(3,109)	–	–	–	–	–	–	3,109	–	–	–
Issue of convertible bonds	–	–	–	–	3,481	–	–	–	–	–	3,481	–	3,481
Adjustment arising from profit guarantee in relation to acquisition of equity interest of subsidiaries	–	–	–	–	–	–	–	72,061	–	–	72,061	–	72,061
Total transactions with owners	–	–	(2,268)	–	3,481	–	–	72,061	–	3,109	76,383	–	76,383
At 31 March 2018	167,440	745,507	10,472	6,600	3,481	(90)	40,737	(9,996)	8,020	(1,138,261)	(166,090)	11,721	(154,369)
At 1 April 2018 (originally stated)	167,440	745,507	10,472	6,600	3,481	(90)	40,737	(9,996)	8,020	(1,138,261)	(166,090)	11,721	(154,369)
Impact on initial application of HKFRS 9	–	–	–	–	–	–	–	–	–	(7,700)	(7,700)	(663)	(8,363)
At 1 April 2018 (restated)	167,440	745,507	10,472	6,600	3,481	(90)	40,737	(9,996)	8,020	(1,145,961)	(173,790)	11,058	(162,732)
Comprehensive income													
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	208,667	208,667	(2,483)	206,184
Other comprehensive loss													
Exchange differences arising on translation of financial statements of overseas and PRC subsidiaries	–	–	–	–	–	–	–	–	(1,150)	–	(1,150)	(659)	(1,809)
Release of translation reserve upon disposal of subsidiaries	–	–	–	–	–	–	–	–	(2,077)	–	(2,077)	–	(2,077)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	–	(3,227)	208,667	205,440	(3,142)	202,298
Transactions with owners													
Lapse of share option	–	–	(10,472)	–	–	–	–	–	–	10,472	–	–	–
Issue of shares	32,651	19,590	–	–	–	–	–	–	–	–	52,241	–	52,241
Share issuance costs	–	(48)	–	–	–	–	–	–	–	–	(48)	–	(48)
Issue of convertible bonds	–	–	–	–	5,568	–	–	–	–	–	5,568	–	5,568
Issue of shares upon conversion of convertible bonds	15,000	36,033	–	–	(9,049)	–	–	–	–	–	41,984	–	41,984
Disposal of subsidiaries	–	–	–	–	–	–	(10,616)	–	–	10,616	–	–	–
Total transactions with owners	47,651	55,575	(10,472)	–	(3,481)	–	(10,616)	–	–	21,088	99,745	–	99,745
At 31 March 2019	215,091	801,082	–	6,600	–	(90)	30,121	(9,996)	4,793	(916,206)	131,395	7,916	139,311

The notes on pages 66 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Operating activities			
Profit/(loss) for the year		206,184	(549,452)
Adjustments for:			
Income tax credit		(2,986)	(21,287)
Interest income		(2,932)	(1,012)
Finance costs		19,141	29,441
Amortisation of prepaid lease payments		208	204
Amortisation of intangible assets		9,284	35,684
Depreciation of property, plant and equipment		10,859	12,282
Write down of inventories		5,078	1,621
Gain on derecognition of finance leases payable		(372,449)	–
Loss on disposal of subsidiaries		10,066	–
Net gain on disposal of property, plant and equipment		(3,768)	(485)
Share-based payment expenses	7(b)	–	841
Share of results of an associate		(483)	1,013
Impairment loss of goodwill		15,000	135,016
Impairment loss of intangible assets		1,742	262,559
Impairment loss of interests in an associate		1,280	374
Impairment loss of trade receivables		17,262	12,170
		(86,514)	(81,031)
Changes in working capital			
Increase in inventories		(1,612)	(7,392)
Decrease in trade and other receivables		77,937	72,683
(Decrease)/increase in trade and other payables		(28,160)	13,117
Cash used in operations		(38,349)	(2,623)
Income tax paid			
The People's Republic of China ("PRC")	30(a)	(14)	(2,856)
Income tax refund			
PRC	30(a)	–	94
		(14)	(2,762)
Net cash used in operating activities		(38,363)	(5,385)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 March 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Investing activities			
Payment for the purchase of property, plant and equipment		(1,220)	(6,597)
Proceeds from disposal of property, plant and equipment		290	548
Disposal of subsidiaries	36	(611)	–
Loans to independent third parties		(55,000)	–
Repayment of loans to independent third parties		20,000	–
Interest received		2,068	1,012
Net cash used in investing activities		(34,473)	(5,037)
Financing activities			
Repayment of finance leases payable		(2,011)	(14,792)
Proceeds from bank and other borrowings		168,147	117,128
Repayment of bank and other borrowings		(229,544)	(119,576)
Proceeds from issue of convertible bonds		28,000	20,000
Proceeds from issue of new shares		52,241	–
Proceeds from non-controlling shareholders of a subsidiary in respect of profit guarantee adjustment		72,061	–
Share issuance cost		(48)	–
Interest paid		(11,873)	(4,591)
Net cash generated from/(used in) financing activities		76,973	(1,831)
Net increase/(decrease) in cash and cash equivalents		4,137	(12,253)
Cash and cash equivalents at beginning of the year		6,877	17,991
Effect of foreign exchange rates changes		(415)	1,139
Cash and cash equivalents at end of the year	24	10,599	6,877
Analysis of the balances of cash and cash equivalents			
Cash at bank and on hand	24	10,599	6,877

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. GENERAL

Synertone Communication Corporation (the "Company") was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, 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 were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in (i) design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) design, development and sales 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 9).

The principal operations of the Group are conducted in the People's Republic of China (the "PRC"). Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the functional currency of the Company. The directors consider that presenting consolidated financial statements in HK\$ is preferable when controlling and monitoring the performance and financial position of the Group. These financial statements are presented in HK\$, rounded to the nearest thousand except for per share data.

The directors of the Company consider that the Group has no holding company or ultimate controlling party as at 31 March 2019.

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 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 (the "HKICPA") 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 <i>Financial Instruments</i> with HKFRS 4 <i>Insurance Contracts</i>
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

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

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*.

Summary of effects arising from initial application of HKFRS 9

As at 1 April 2018, the directors of the Company reviewed and assessed (i) the classification and measurement on the Group's financial assets under the requirements of HKFRS 9 based on the facts and circumstances that existed at that date; and (ii) the impairment of the Group's financial assets 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.

The table below illustrates the impacts of 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 HKAS 39 as at 31 March 2018 (audited)	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 (restated)	–	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 fair value through other comprehensive income ("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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

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

HKFRS 9 Financial instruments (Continued)

Notes: (Continued)

- (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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

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

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 HK\$'000 (Audited)	Impact on initial application of HKFRS 9 HK\$'000	Impact on initial application of HKFRS 15 HK\$'000	As at 1 April 2018 HK\$'000 (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

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRS 9	Prepayment Feature with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

Under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right-to-use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17.

As set out in note 37(b), the Group has non-cancellable operating lease commitments of HK\$9,779,000 as at 31 March 2019. A preliminary assessment indicated that these arrangements would meet the definition of a lease. Upon application of HKFRS 16, the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group has already recognised an asset for prepaid lease payments for leasehold lands and for motor vehicles acquired under hire purchase where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

The directors of the Company anticipate that the application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basic of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2019 comprise the financial statements of the Company and its subsidiaries and the Group's interests in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(j)(ii)).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 3(j)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

The carrying amount of an investment in an associate is tested for impairment in accordance with the policy described in note 3(j)(ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) (i) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) (i) Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Groups previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(ii) Goodwill

Goodwill arising on a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVTPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 34(e). These investments are subsequently accounted for as follows, depending on their classification.

(A) *Policy applicable from 1 April 2018*

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 3(u)(iv).

(B) *Policy applicable prior to 1 April 2018*

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in securities which did not fall into any of the above categories are classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve. Dividend income from equity securities was recognised in profit or loss in accordance with the policy set out in note 3(u)(iv). When the investments were derecognised or impaired (see note 3(j)(i) – policy applicable prior to 1 April 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and impairment losses (see note 3(j)(ii)).

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part of a separate asset is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.	
—	Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.	
—	Leasehold improvements	5 years
—	Plant and machinery	4–10 years
—	Furniture, fixtures and equipment	3–5 years
—	Motor vehicles	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 3(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 3(j)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 3(j)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets (other than goodwill) *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Technical know-how for digital trunking system	3–5 years
— Technical know-how for VSAT satellite system	5 years
— Administrative system costs	5 years
— Rights to use Synertone 1 satellite bandwidth	9.5 years
— Safe communication technology software	10 years
— Patents and software	5–10 years
— Trademarks	5–10 years
— Customer relationship	5 years

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3(i)(ii)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and intangible assets and the corresponding liabilities, net of finance charges, are recorded as finance leases payable. Depreciation and amortization are provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in notes 3(g) and 3(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

(iv) *Leasehold land for own use*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit losses and impairment of assets

(i) *Credit losses from financial instruments*

(A) Policy applicable from 1 April 2018

The Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Financial assets measured at fair value, including equity securities measured at FVTPL, equity securities designated at FVTOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For fixed-rate financial assets and trade and other receivables, the expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof; and for variable-rate financial assets the expected cash shortfalls are discounted using the current effective interest rate, where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 April 2018 *(Continued)*

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs 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 ECLs.

Significant increases 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 that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 365 days past due. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from 1 April 2018 *(Continued)*

Significant increases in credit risk *(Continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Interest income recognised in accordance with note 3(u)(iii) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(B) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVTPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(B) Policy applicable prior to 1 April 2018 *(Continued)*

If any such evidence existed, any impairment loss was determined and recognised as follows:

- For available-for-sale equity securities carried at cost, the impairment loss was measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting was material. Impairment losses for equity securities carried at cost were not reversed.
- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit losses and impairment of assets *(Continued)*

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid lease payments;
- intangible assets;
- goodwill;
- prepayment for acquisition of property, plant and equipment, and;
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Credit losses and impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 3(u)).

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(j)(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(n) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the bond is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible bonds reserve is released directly to retained profits.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 3(w)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 3(u)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 3(l)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share-based compensation reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the date of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Provisions and contingent liabilities

(i) *Contingent liabilities assumed in business combinations*

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(t)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(t)(ii).

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(i) *Sale of goods*

Revenue from sale of goods for communication technology, building intelligence and smart home and industrial control businesses is recognised at a point in time when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

(ii) *Sale of services*

Revenue is recognised when the services are provided to customers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue recognition (Continued)

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVTOCI that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(j)(i)).

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them.

Government grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(vi) Value-added taxes refund

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

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into HK\$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005 are translated into HK\$ at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies *(Continued)*

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(x) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief executive officer, who has been identified as the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

4. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period. Note 31 contains information about the assumptions and risk factors relating to equity-settled share-based transactions. Other judgements made by the management in the application of HKFRSs that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) *Impairment of non-financial assets (other than goodwill)*

Determining whether there is an impairment requires an estimation of recoverable amounts of the property, plant and equipment, prepaid lease payments, intangible assets, prepayment for acquisition of property, plant and equipment or the respective cash generating unit in which property, plant and equipment, prepaid lease payments, intangible assets, prepayment for acquisition of property, plant and equipment belong, which is the higher of value in use and fair value less costs of disposal. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash generating unit to which the asset belongs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the assets of cash generating units and a suitable discount rate in order to calculate the present value. The discount rate represents a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where the actual future cash flows or the revision of estimated future cash flows are less than original estimated future cash flow, a material impairment loss may arise.

(ii) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit to which the goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2019, the carrying amount of goodwill is HK\$50,566,000 (net of accumulated impairment losses of HK\$187,672,000) (2018: carrying amount of HK\$70,234,000, net of accumulated impairment losses of HK\$184,816,000). Details of the recoverable amount calculation are disclosed in note 18.

(iii) *Useful lives and residual values of property, plant and equipment*

Management determines the estimated useful lives and residual values for the Group's property, plant and equipment in accordance with accounting policy stated in note 3(g). The Group will revise the depreciation charge where useful lives and residual values are different from the previous estimates, or will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) *Amortisation of intangible assets*

Intangible assets are amortised on a straight-line basis over their estimated useful lives in accordance with accounting policy stated in note 3(h). The determination of the useful lives involves management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

4. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(a) Key sources of estimation uncertainty *(Continued)*

(v) *Net realisable value of inventories*

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale. The directors estimated the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

(vi) *Expected credit losses on trade and other receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geography, product type, and customer type and rating). The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The Group assessed the credit exposures of financial assets included in other receivables, and there has not been a significant increase in credit risk since initial recognition and the Group performed expected credit loss assessment for credit losses that result from default events that are possible within the next 12 months. The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

As at 31 March 2019, the carrying amount of trade and other receivables is HK\$131,095,000 (net of loss allowance of HK\$93,451,000) (2018: carrying amount of HK\$285,739,000, net of loss allowance of HK\$90,234,000). Further information about the ECLs on the Group's trade and other receivables is disclosed in note 23 and note 34(a).

(vii) *Estimation of provision for warranty*

The Group generally provides 0 to 3 years warranties to its customers on its products under which faulty products are repaired and replaced. Provision for warranty is made based on possible claims on the products by customers with reference to the percentage of warranty expenses incurred over total sales amounts during the year ended 31 March 2019, and no provision for warranty has been made in the consolidated financial statements. In case where actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such claim takes place.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

4. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Critical accounting judgements in applying the group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(i) *Income tax*

The Group is subject to income tax in Hong Kong and the PRC. Significant judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the financial period in which such determination is made.

Deferred tax assets relating to certain temporary differences and certain tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the periods in which such estimates are changed.

5. REVENUE

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

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
Specialised communication systems 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 sales of products is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Disaggregation of the Group's revenue from contracts with customers by geographic markets is disclosed in note 14.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

6. OTHER INCOME AND OTHER GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
Other income		
Interest income on bank deposits (<i>note a</i>)	236	9
Interest income on loan receivables (<i>note a</i>)	2,695	1,000
Government grants (<i>note b</i>)	2,621	2,328
Value-added taxes refund (<i>note c</i>)	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) Interest income from bank deposits and loan receivables represented the total interest income on financial assets not at FVTPL.
- (b) These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to "hi-tech enterprise".
- (c) Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

7. LOSS BEFORE TAXATION

(a) Finance costs

Loss before taxation is arrived at after charging the following:

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
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
Total interest expense on financial liabilities not at FVTPL	8,389	11,297

(b) Staff costs (Including Director's Emoluments in Note 10)

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
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

As stipulated by the relevant rules and regulations in the PRC, the PRC subsidiaries of Group are required to contribute a state-sponsored retirement plan, which is a defined contribution pension schemes, for all of their employees at a certain percentage of the employee's basic salary. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

Save for the above, the Group has no other obligation for payment of retirement benefits beyond the contributions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

7. LOSS BEFORE TAXATION (Continued)

(c) Other items

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
Auditor's remuneration	1,000	1,000
Cost of inventories	47,412	46,922
Write-down of inventories	5,078	1,621
Amortisation of prepaid lease payments (note 16)	208	204
Amortisation of intangible assets (note 17)	9,284	16,321
Depreciation of property, plant and equipment (note 15)	9,810	11,123
Impairment loss of trade receivables (note 23)	16,746	12,576
Impairment loss of intangible assets (note (i))	1,742	47,403
Impairment loss of goodwill (note (i))	15,000	135,016
Operating lease charges in respect of leased property	4,926	4,409
Research and development expenditure (note (iii))	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. Details of impairment assessment of goodwill and intangible assets are disclosed in notes 17 and 18, respectively.
- (ii) Research and development expenditure for the year ended 31 March 2019 included 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 7(b).

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
Current tax		
PRC Enterprise Income Tax ("EIT") (note (iv))	11	9
Under/(over)-provision in respect of prior year		
PRC EIT	3	(5,379)
Deferred tax		
Origination and reversal of temporary differences (note 30(b))	(3,000)	(16,102)
	(2,986)	(21,472)

Notes:

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.
- (ii) Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the BVI subsidiaries of the Group are not subject to any income tax in the BVI.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

(a) Income tax in the consolidated statement of profit or loss *(Continued)*

Notes: *(Continued)*

- (iii) No provision has been made for Hong Kong Profits Tax as the Group does not earn any income subject to Hong Kong Profits Tax during the year.
- (iv) One of the PRC subsidiaries of the Group, 協同通信技術有限公司 (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 a rate of 25% (2018: 25%).

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

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2019 HK\$'000	2018 HK\$'000 (restated)
Loss before taxation from continuing operations	(134,805)	(321,540)
Notional tax on loss before taxation, calculated at the rates applicable in the countries concerned	(31,948)	(78,252)
Tax effect of non-deductible expenses	10,210	41,232
Tax effect of non-taxable income	(2,079)	(2,492)
Tax effect of deductible temporary differences not recognised	12,574	14,579
Tax effect of unused tax losses not recognised	11,496	15,381
Tax effect of utilisation of tax losses not recognised in prior years	(1,361)	(1,640)
Effect of tax incentive on eligible expenditure <i>(note)</i>	(1,391)	(3,230)
Under/(over)-provision in prior years	3	(5,379)
Others	(490)	(1,671)
Actual tax credit	(2,986)	(21,472)

Note:

Certain PRC subsidiaries of the Group enjoyed an additional 50% to 75% (2018: 50% to 75%) tax deduction on research and development costs charged to profit or loss in the calculation of PRC EIT charge.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

9. 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	1,580
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 (recognised)/reversed of trade receivables	(516)	406
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 (<i>note 36</i>)	(10,066)	–
Profit/(loss) for the period/year from discontinued operation	338,003	(249,384)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

9. DISCONTINUED OPERATION *(Continued)*

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

	2019 HK\$'000	2018 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 on bank deposits	(1)	(3)
Net exchange loss/(gain)	13,300	(3,937)
Gain on disposal of property, plant and equipment <i>(note)</i>	(3,637)	–
Gain on derecognition of finance leases payable <i>(note)</i>	(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 the vendor of Synertone 1 satellite bandwidth (the "Vendor") and (ii) Vastsuccess entered into the transfer agreement (the "Transfer Agreement") with the Vendor, pursuant to which, among others, the relevant agreements in respect of the exclusive right to use Synertone 1 satellite bandwidth resources granted by the Vendor to the Group had been terminated as of December 2017 and the Group should settle the outstanding amount of United States Dollars ("US\$") 6,277,419.54 (including the outstanding bandwidth resource fees payable for the fourth service year) (the "Outstanding Amount") due to the Vendor.

In accordance with the relevant agreements, US\$5,000,000 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 the Vendor. The Group has accounted for the upgraded hub system as an item of property, plant and equipment within the category of construction-in-progress. 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 the Vendor.

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 leases payable is included in profit for the year from discontinued operation.

Cash flows from discontinued operation for the years are as follows:

	2019 HK\$'000	2018 HK\$'000
Net cash (used in)/from operating activities	(5,475)	6,467
Net cash used in investing activities	(365)	(1,695)
Net cash used in financing activities	–	(13,640)
Effect of foreign exchange rate changes	(55)	356

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments is as follows:

	Year ended 31 March 2019						
	Fees	Salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Sub-total	Share-based payments (note a)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors							
Wong Chit On (<i>Chairman</i>)	100	3,865	–	18	3,983	–	3,983
Han Weining (<i>Chief executive officer</i>)	360	1,440	–	18	1,818	–	1,818
Independent non-executive directors							
Lam Ying Hung Andy	100	–	–	–	100	–	100
Wang Chen	100	–	–	–	100	–	100
Li Mingqi	100	–	–	5	105	–	105
	760	5,305	–	41	6,106	–	6,106

	Year ended 31 March 2018						
	Fees	Salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Sub-total	Share-based payments (note a)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors							
Wong Chit On (<i>Chairman</i>)	100	3,865	–	18	3,983	23	4,006
Han Weining (<i>Chief executive officer</i>)	360	1,440	–	18	1,818	23	1,841
Independent non-executive directors							
Lam Ying Hung Andy	100	–	–	–	100	23	123
Wang Chen	100	–	–	–	100	–	100
Li Mingqi	100	–	–	5	105	–	105
	760	5,305	–	41	6,106	69	6,175

Note:

- (a) These represented the estimated value of share options granted to the directors under the Company's share option scheme adopted on 22 March 2012. The value of these share options is measured according to the Group's accounting policies for share-based payment as set out in note 3(r).

No emoluments or incentive payments were paid to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. There was no arrangement under which a director waived or agreed to waive any emoluments for the years ended 31 March 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors of the Company whose emoluments are disclosed in note 10. The aggregate of emoluments of the remaining three (2018: three) individuals were as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and other emoluments	2,080	2,171
Share-based payments expenses	–	115
Contributions to retirement benefit schemes	109	53
	2,189	2,339

The emoluments of the three (2018: three) individuals with the highest emoluments are within the following bands:

	2019	2018
HK\$Nil to HK\$1,000,000	3	3

No emoluments or incentive payments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 March 2019 and 2018.

12. DIVIDENDS

The directors do not recommend the payment of any dividends in respect of the years ended 31 March 2019 and 2018.

13. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

13. EARNINGS/(LOSS) PER SHARE *(Continued)*

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the following:

	2019 HK\$'000	2018 HK\$'000
Earnings/(loss) attributable to owners of the Company for the purpose of diluted earnings/(loss) per share	208,667	(545,125)

	2019 '000	2018 '000
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	4,110,635	3,348,800
Effect of deemed issue of shares from exercise of warrants	–	–
Effect of deemed issue of shares from conversion of convertible bonds	–	–
Effect of deemed issue of shares under share option scheme	–	–
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 are 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

13. EARNINGS/(LOSS) PER SHARE (Continued)

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 HK\$'000	2018 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.

14. 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 specialized 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

14. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, bank and other borrowings and finance leases payable 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, 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

14. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

14. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

Continuing Operations (Continued)

	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)	–	(109,031)
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

14. SEGMENT REPORTING (Continued)

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

	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>		
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

14. SEGMENT REPORTING (Continued)

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

	2019 HK\$'000	2018 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
	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 prepaid lease payments, prepayment for acquisition of property, plant and equipment and property, plant and equipment are 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 operation to which they are allocated. In the case of interests in an associate, it is the location of operations of such associate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

14. SEGMENT REPORTING (Continued)

(c) Geographical information (Continued)

	Revenue from external customers		Non-current assets	
	2019 HK\$'000	2018 HK\$'000 (restated)	2019 HK\$'000	2018 HK\$'000 (restated)
<i>Continuing operations</i>				
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 5.

(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 HK\$'000	2018 HK\$'000
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 April 2017	43,917	56,585	41,913	2,108	11,579	29,147	185,249
Additions	–	403	5,065	820	–	8	6,296
Transfer to inventories	–	–	–	–	–	(2,563)	(2,563)
Disposals	–	–	(375)	(4)	(879)	–	(1,258)
Effect of foreign currency exchange differences	4,743	6,106	4,781	416	1,097	3,010	20,153
At 31 March 2018	48,660	63,094	51,384	3,340	11,797	29,602	207,877
At 1 April 2018	48,660	63,094	51,384	3,340	11,797	29,602	207,877
Additions	–	–	88	43	985	104	1,220
Disposals	–	–	(2)	(12)	(3,046)	(27,478)	(30,538)
Disposal of subsidiaries	–	(11,912)	(4,009)	(2,086)	(4,119)	–	(22,126)
Effect of foreign currency exchange differences	(3,234)	(4,548)	(3,530)	(367)	(292)	(2,228)	(14,199)
At 31 March 2019	45,426	46,634	43,931	918	5,325	–	142,234
Accumulated depreciation and impairment							
At 1 April 2017	2,942	47,006	28,926	896	6,776	–	86,546
Charge for the year	2,319	2,577	5,627	523	1,236	–	12,282
Eliminated on disposals of assets	–	–	(373)	(4)	(818)	–	(1,195)
Effect of foreign currency exchange differences	443	5,202	3,408	290	1,034	–	10,377
At 31 March 2018	5,704	54,785	37,588	1,705	8,228	–	108,010
At 1 April 2018	5,704	54,785	37,588	1,705	8,228	–	108,010
Charge for the year	2,371	1,814	5,294	406	974	–	10,859
Eliminated on disposal of assets	–	–	(2)	(12)	(2,914)	–	(2,928)
Eliminated on disposal of subsidiaries	–	(8,374)	(3,301)	(1,322)	(2,654)	–	(15,651)
Effect of foreign currency exchange differences	(454)	(3,931)	(2,767)	(262)	(226)	–	(7,640)
At 31 March 2019	7,621	44,294	36,812	515	3,408	–	92,650
Carrying amounts							
At 31 March 2019	37,805	2,340	7,119	403	1,917	–	49,584
At 31 March 2018	42,956	8,309	13,796	1,635	3,569	29,602	99,867

Notes:

- (a) At 31 March 2019, buildings with net book value of HK\$37,805,000 (2018: HK\$37,561,000) was pledged to banks as collateral against the bank borrowings of HK\$33,108,000 (2018: HK\$32,449,000) (note 26).
- (b) At 31 March 2019, the carrying amount of motor vehicles held under finance leases was HK\$789,000 (2018: HK\$3,012,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

16. PREPAID LEASE PAYMENTS

	2019 HK\$'000	2018 HK\$'000
Cost		
At beginning of the year	9,815	8,858
Effect of foreign currency exchange differences	(647)	957
At end of the year	9,168	9,815
Accumulated amortisation and impairment losses		
At beginning of the year	502	259
Charge for the year	208	204
Effect of foreign currency exchange differences	(40)	39
At end of the year	670	502
Carrying amount	8,498	9,313
Analysed for reporting purposes as:		
Current assets	201	215
Non-current assets	8,297	9,098
	8,498	9,313

At 31 March 2019, the carrying amount of prepaid lease payments of HK\$8,498,000 (2018: HK\$9,313,000) was pledged as security for the Group's bank borrowings amounting to HK\$29,611,000 (2018: HK\$32,449,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

17. INTANGIBLE ASSETS

	Technical Know-how for digital trunking system HK\$'000 (note a)	Technical Know-how for VAST satellite system HK\$'000 (note a)	Administrative system costs HK\$'000 (note a)	Right to use Synertone1 satellite bandwidth HK\$'000 (note b)	Safe communication technology software HK\$'000 (note c)	Patents and software HK\$'000 (note d)	Trademark HK\$'000 (note d)	Customer relationship HK\$'000 (note e)	Total HK\$'000
Cost									
At 1 April 2017	51,580	9,500	5,272	637,347	30,918	60,547	3,794	13,842	812,800
Effect of foreign currency exchange differences	1,193	–	28	6,277	3,339	6,539	411	1,495	19,282
At 31 March 2018	52,773	9,500	5,300	643,624	34,257	67,086	4,205	15,337	832,082
At 1 April 2018	52,773	9,500	5,300	643,624	34,257	67,086	4,205	15,337	832,082
Derecognised upon early termination of lease arrangement (note (b))	–	–	–	(643,437)	–	–	–	–	(643,437)
Disposal of subsidiaries	(13,780)	(9,500)	–	–	–	–	–	–	(23,280)
Effect of foreign currency exchange differences	(535)	–	(19)	(187)	(2,258)	(4,421)	(277)	(1,011)	(8,708)
At 31 March 2019	38,458	–	5,281	–	31,999	62,665	3,928	14,326	156,657
Accumulated amortisation and impairment									
At 1 April 2017	51,345	9,500	5,154	403,977	7,729	15,795	1,011	3,930	498,441
Charge for the year	246	–	56	19,363	3,250	9,061	798	2,910	35,684
Impairment loss recognised (notes (b) and (g))	–	–	–	215,156	22,268	25,135	–	–	262,559
Effect of foreign currency exchange differences	1,182	–	17	5,128	1,010	2,195	153	582	10,267
At 31 March 2018	52,773	9,500	5,227	643,624	34,257	52,186	1,962	7,422	806,951
At 1 April 2018	52,773	9,500	5,227	643,624	34,257	52,186	1,962	7,422	806,951
Charge for the year	–	–	19	–	–	5,490	812	2,963	9,284
Impairment loss recognised (note (g))	–	–	–	–	–	1,482	260	–	1,742
Eliminated upon early termination of lease arrangement (note (b))	–	–	–	(643,437)	–	–	–	–	(643,437)
Eliminated upon disposal of subsidiaries	(13,780)	(9,500)	–	–	–	–	–	–	(23,280)
Effect of foreign currency exchange differences	(535)	–	(15)	(187)	(2,258)	(3,621)	(155)	(587)	(7,358)
At 31 March 2019	38,458	–	5,231	–	31,999	55,537	2,879	9,798	143,902
Carrying amounts									
At 31 March 2019	–	–	50	–	–	7,128	1,049	4,528	12,755
At 31 March 2018	–	–	73	–	–	14,900	2,243	7,915	25,131

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

17. INTANGIBLE ASSETS (Continued)

Notes:

- (a) Administrative system costs represent costs of Group's computer system software. Technical know-how for digital trunking system and VSAT satellite system represents technical know-how acquired by the Group in relation to the production of specialized communication systems.
- (b) It represents the right to use Synertone 1 satellite bandwidth acquired by the Group and has a finite useful life of 9.5 years.

During the year ended 31 March 2018, the Group initiated discussions with the Vendor of Synertone 1 satellite bandwidth for modifications of the definitive agreement signed in March 2013 (the "Agreement"), which grants the Group the exclusive right to use the Synertone 1 satellite bandwidth for 9.5 service years commencing from October 2013, to change the cooperation model from the fifth service year onwards (which commences in October 2017) in view of recent change of market conditions. In the meantime, the Group had not paid for the bandwidth resources fee for the fifth service year as required during the year on the basis that the Agreement was terminated by the Group upon the exercise of its right to modify the cooperation model pursuant to the terms of the Agreement. However, the Vendor took a different view and disputed that, inter alia, the bandwidth resources fee for the fifth service year should remain payable. In December 2017, the Vendor issued a notice of termination (the "Notice") to the Group according to which: (i) the Vendor has terminated the Agreement due to the failure of the Group, inter alia, pay the required bandwidth resources fees under the Agreement to the Vendor and (ii) the Vendor will maintain the provision of Synertone 1 satellite bandwidth resources to the Group subject to certain conditions.

Impairment losses in respect of the right to use Synertone 1 satellite bandwidth had been recognised during the year ended 31 March 2018 as the Group considered that the recoverable amount of the asset is likely to be negligible, taking into account that the Group and the Vendor have the common ground that the Agreement had been terminated despite the fact that no formal agreement has been reached with the Vendor subsequent to the issue of the Notice, and accordingly the anticipated cash flows to be generated from the future use of the asset would be uncertain.

During the year ended 31 March 2019, the Group entered into the Settlement Agreement with the Vendor (note 9) and both parties agreed that the Agreement had been early terminated. As a result, the intangible asset was derecognised in the Group's consolidated financial statements.

- (c) It represents the technologies in relation to the provision of a safe communication environment for end users.
- (d) Patents and software and trademarks represent those related to safe communication technologies, building intelligence and smart home products and industrial control systems acquired by the Group through business combinations in prior years.
- (e) It represents customer relationship under building intelligence and smart home business and industrial control system business acquired by the Group through business combinations in prior years.
- (f) The amortisation charge for the year is included in cost of sales of nil (2018: HK\$26,282,000), research and development expenditure of nil (2018: HK\$247,000) and administrative expenses of approximately HK\$9,284,000 (2018: HK\$9,155,000) respectively in the consolidated statement of profit or loss.
- (g) Impairment losses in respect of safe communication technology software and patents related to safe communication technologies cash generating unit had been recognised during the year ended 31 March 2018, which primarily arose from the change in customer needs that resulted in a significant decline of revenue generated from those technologies.

Impairment losses in respect of patents and software and trademark related to building intelligence and smart home cash generating unit had been recognised during the year ended 31 March 2019, which was triggered by operating losses incurred by the business segment in the current and preceding years. The recoverable amount of the relevant intangible assets attributable to the building intelligence and smart home cash generating unit is calculated based on value-in-use calculations and made reference to a valuation performed by an independent professional valuer. These calculations used cash flow projections based on financial forecasts prepared by management for the next five years, discounted using a pre-tax discount rate of 19.6% for patents and software and 22.6% for trademark. Cash flows beyond the 5-year period were extrapolated using a growth rate of 3%. The discount rates used reflect specific risks relating to the relevant assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

18. GOODWILL

	2019 HK\$'000	2018 HK\$'000
Cost		
At beginning of the year	255,050	230,188
Effect of foreign currency exchange differences	(16,812)	24,862
At end of the year	238,238	255,050
Accumulated impairment losses		
At beginning of the year	184,816	44,848
Impairment loss recognised	15,000	135,016
Effect of foreign currency exchange differences	(12,144)	4,952
At end of the year	187,672	184,816
Carrying amount	50,566	70,234

Goodwill are allocated to the Group's cash generating units as follows:

	2019 HK\$'000	2018 HK\$'000
Provision of safe communication technologies	–	–
Building intelligence and smart home	–	–
Industrial control system	50,566	70,234
	50,566	70,234

Impairment tests for cash-generating units containing goodwill

For the purpose of determining whether goodwill attributable to the industrial control system cash generating unit is impaired, the recoverable amount of the industrial control system cash generating unit 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. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the cash generating unit operates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

18. GOODWILL (Continued)

The key assumptions used in value-in-use calculations are as follows:

	Industrial control system	
	2019 %	2018 %
– Gross margin	25%	41%
– Long-term growth rate	3.00%	2.98%
– Pre-tax discount rate	19.56%	23.38%

Management determined the budgeted gross margin based on historical experience and its expectations for market development. The long term growth rates used was adopted based on the China long term projected inflation as sourced from the International Monetary Fund. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

At 31 March 2019, the recoverable amount of the industrial control system cash generating unit was HK\$5,829,000 (2018: HK\$30,017,000).

Based on management's assessment and by reference to the calculations performed by an independent appraisal firm, ROMA Appraisals Limited, the Group recognised impairment loss of HK\$15,000,000 (2018: HK\$126,805,000) under the industrial control system cash generating unit as the carrying amounts of those assets related to the cash generating unit exceeded their respective recoverable amounts at the end of each reporting period. As the carrying amount of the cash generating unit have been reduced to their recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment loss.

The directors considered that the goodwill attributable to industrial control system cash generating unit was impaired as there has been a decrease in actual gross margin due to keen market competition during the current year, which arose from the Group's attempt to explore market presence in new geographical locations such as northern and western provinces of China.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

19. SUBSIDIARIES

The following is a list of subsidiaries at 31 March 2019:

Name of subsidiary	Place of incorporation and business	Particulars of issued and paid-up share/registered capital	Proportion of ownership interest			Principal activities/ place of operation
			Group's effective interest	Held by the Company	Held by subsidiaries	
LakeWest Holdings Limited ("LakeWest")	Hong Kong	10,000 ordinary shares	100%	100%	–	Inactive/Hong Kong
Radio World Holding Limited	BVI	1,000 ordinary shares of US\$1 each	100%	100%	–	Investment holding/Hong Kong
Synertone Communication Technology Limited	Hong Kong	10,000 ordinary shares	100%	–	100%	Trading of specialised communication systems, investment holding/Hong Kong
協同通信技術有限公司 (note (a))	PRC	Registered capital of HK\$80,000,000	100%	–	100%	Design, research and development, production and sales of specialised communication, equipment and systems and system technologies/PRC
Thrive United Holdings Limited	BVI	1 ordinary share of US\$1 each	100%	–	100%	Investment holding/Hong Kong
Longching Technology Limited	Hong Kong	10,000 ordinary shares	100%	–	100%	Investment holding/Hong Kong
朗晴通科技(深圳)有限公司 (note (a))	PRC	Registered capital of Renminbi ("RMB") 158,160	100%	–	100%	Design, development and sale of security system/PRC
MOX Products Pty Limited	BVI	50,000 ordinary shares of US\$1 each	100%	–	100%	Investment holding/Hong Kong

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

19. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and business	Particulars of issued and paid-up share/registered capital	Proportion of ownership interest			Principal activities/ place of operation
			Group's effective interest	Held by the Company	Held by subsidiaries	
悉雅特萬科思自動化(杭州)有限公司 (note (a))	PRC	Registered capital of US\$1,000,000	100%	–	100%	Design, development and sales of automation control systems for industrial use/PRC
萬科思自動化(上海)有限公司 (note (b))	PRC	Registered capital of RMB1,000,000	100%	–	100%	Design, development and sales of automation control systems for industrial use/PRC
Sense Field Group Limited ("Sense Field")	BVI	100 ordinary shares of US\$1 each	85%	–	85%	Investment holding/Hong Kong
MOX Group Limited	BVI	50,000 ordinary shares	85%	–	85%	Investment holding/Hong Kong
悉雅特樓宇自控(杭州)有限公司 (note (a))	PRC	Registered capital of US\$300,000	85%	–	85%	Research and development, manufacturing and sales of intelligent building systems including video intercom and surveillance systems for buildings/PRC
萬科思自控信息(中國)有限公司 (note (a))	PRC	Registered capital of US\$10,000,000	85%	–	85%	Research and development, manufacturing and sales of intelligent building systems including video intercom and surveillance systems for buildings/PRC

Notes:

- (a) Registered under the laws of the PRC as a wholly-owned foreign enterprise.
- (b) Registered under the laws of the PRC as a limited liability company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

19. SUBSIDIARIES (Continued)

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Sense Field Group	
	2019 HK\$'000	2018 HK\$'000
NCI percentage	15%	15%
Current assets	136,675	140,349
Non-current assets	62,002	81,964
Current liabilities	(142,738)	(137,989)
Non-current liabilities	(3,184)	(6,200)
Net assets	52,755	78,124
Carrying amount of NCI	7,916	11,721
Revenue	52,180	48,314
Loss for the year	(16,554)	(28,846)
Other comprehensive (loss)/income	(4,398)	9,040
Total comprehensive loss	(20,952)	(19,806)
Loss allocated to NCI	(2,483)	(4,327)
Dividend paid to NCI	–	–
Cash flows (used in)/from operating activities	(15,789)	5,573
Cash flows from/(used in) investing activities	33	(193)
Cash flows from/(used in) financing activities	16,148	(6,725)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

20. INTERESTS IN AN ASSOCIATE

The following is a list of the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available:

Name of associate	Place of incorporation and business	Class of Share held	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by subsidiaries	
杭州奥邁智能科技有限公司 ("Hangzhou Aomai")	PRC	Registered	Registered capital RMB2,450,000	41.65%	–	49%	Research and development, manufacturing and sales of intelligent building systems including video intercom and surveillance systems for buildings across the PRC

Notes:

- (a) Registered under the laws of the PRC as a Sino-foreign joint venture.
- (b) The above associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of associate:

	2019 HK\$'000	2018 HK\$'000
Current assets	19,874	18,847
Non-current assets	–	52
Current liabilities	(18,921)	(21,197)
Non-current liabilities	–	–
Revenue	4	191
Profit/(loss) for the year	3,205	(4,249)
Other comprehensive income/(loss) for the year	46	(17)
Total comprehensive income/(loss) for the year	3,251	(4,266)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

20. INTERESTS IN AN ASSOCIATE (Continued)

Reconciliation of the above summarised financial information to the carrying amount of interest in Hangzhou Aomai recognised in the consolidated financial statements:

	2019 HK\$'000	2018 HK\$'000
Net assets of the associate	953	(2,298)
Proportion of the Group's ownership interest in the associate	49%	49%
	467	–
Goodwill	–	1,370
Carrying amount of the Group's interest in the associate	467	1,370

Unrecognised share of losses of associate:

	2019 HK\$'000	2018 HK\$'000
Unrecognised share of loss of an associate for the year	–	(1,069)
Cumulative share of loss of an associate	–	(1,069)

21. AVAILABLE-FOR-SALE INVESTMENTS

	2019 HK\$'000	2018 HK\$'000
Unlisted investments, at cost:		
– Equity securities	–	3,900

Unlisted equity investments comprise equity interests in entity which focuses on the satellite technology, dedicated application-specific-integrated circuit development and high-tech research and development. At 1 April 2018, the investments are reclassified as financial asset at FVTOCI upon the initial adoption of HKFRS 9.

During the year ended 31 March 2019, the investments have been disposed of through disposal of subsidiaries (note 36).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

22. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	12,337	14,904
Work in progress	20,836	21,777
Finished goods	8,765	11,837
	41,938	48,518

23. TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables (<i>notes (a) and (b)</i>)	141,393	196,416
Less: Loss allowance (<i>note (c)</i>)	(93,451)	(90,234)
	47,942	106,182
Bill receivables	–	1,324
Loan receivables (<i>note (d)</i>)	55,000	20,000
Other receivables	15,672	46,806
Due from non-controlling shareholders of a subsidiary (<i>note (e)</i>)	–	72,061
Advance to suppliers	–	21,648
Prepaid value-added and other taxes	63	8,141
Prepayments for acquisition of property, plant and equipment	–	8,141
Deposits and prepayments	12,418	9,577
	131,095	293,880
Reconciliation to the consolidated statement of financial position:		
Non-current	–	8,141
Current	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 (2018: 30 to 180 days). 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2019 HK\$'000	2018 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) Impairment of trade receivables

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 HK\$'000	2018 HK\$'000
At beginning of the year	90,234	71,178
Effect of initial adoption of HKFRS 9 <i>(note 2)</i>	8,363	–
At beginning of the year	98,597	71,178
Impairment loss recognised	17,262	12,170
Disposal of subsidiaries	(14,926)	–
Uncollectible amounts written off	–	(1,372)
Effect of foreign currency exchange difference	(7,482)	8,258
At end of the year	93,451	90,234

Details of impairment assessment of trade receivables for the year ended 31 March 2019 are set out in note 34(a).

As at 31 March 2018, specific allowance for doubtful debts of HK\$90,234,000 were recognised in respect of trade receivables which were individually determined to be impaired. The individually impaired receivables were outstanding beyond its credit period and without any repayment subsequent to the year-end date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

23. TRADE AND OTHER RECEIVABLES (Continued)

(c) Impairment of trade receivables (Continued)

As at 31 March 2018, the ageing analysis of trade receivables that were neither individually nor collectively considered to be impaired was as follows:

	2018 HK\$'000
Neither past due nor impaired	30,884
Past due but not impaired	
Less than 1 month past due	1,520
1 to 3 months past due	5,577
More than 3 months but less than 12 months past due	14,281
More than 12 months past due	53,920
	75,298
	106,182

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

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. For any significant amounts past due, the Group would actively seek repayment from the debtors and the Group would enforce its legal right to the contractually due amount when considered necessary. There had been no disputes over the balances due from these debtors, therefore, the directors considered that the balances were fully recoverable. The Group did not hold any collateral over these balances.

(d) Loan receivables

Loan receivables represent amounts advanced to independent third parties and are unsecured, interest bearing at 6% per annum (2018: 5% per annum) and repayable within one year.

(e) Due from non-controlling shareholders of a subsidiary

The amount represents receivable from the non-controlling shareholders of Sense Field, an indirect non-wholly-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.

24. CASH AND CASH EQUIVALENTS

The interest rates on the cash at bank and deposits with banks ranged from 0.001% to 0.35% (2018: 0.001% to 0.35%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

25. TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 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 (<i>note</i>)	12,156	–
Deposits received from customers	–	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). Contract liabilities of HK\$5,206,000 outstanding at 1 April 2018 were subsequently recognised as revenue of the Group for the year ended 31 March 2019.

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

	2019 HK\$'000	2018 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

26. BANK AND OTHER BORROWINGS

At 31 March 2019, bank and other borrowings were as follows:

	2019 HK\$'000	2018 HK\$'000
Bank borrowings:		
– secured (<i>note (c)</i>)	33,108	43,682
– unsecured (<i>note (d)</i>)	34,974	46,053
Unsecured other borrowings (<i>note (e)</i>)	36,139	81,920
	104,221	171,655

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

26. BANK AND OTHER BORROWINGS (Continued)

At 31 March 2019, bank and other borrowings were due for repayment as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 year	104,221	171,655

The banking facilities are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 34(b). As at 31 March 2019, none of the covenants relating to drawn down facilities had been breached (2018: HK\$Nil).

All of the bank and other borrowings are carried at amortised cost.

Notes:

- (a) All the Group's bank and other borrowings are denominated in RMB and HK\$.
- (b) The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank and other borrowings are as follows:

	2019	2018
Effective interest rates: Fixed-rate borrowings	5.22%-6.85%	5.22%-6.5%

- (c) At 31 March 2019 and 2018, the secured bank borrowings are secured by prepaid lease payments and property, plant and equipment of the Group (see notes 15 and 16) and collaterals from a director of the Company.
- (d) The unsecured bank borrowings were guaranteed by a subsidiary of the Company.
- (e) Unsecured other borrowings represented loans from independent third parties bearing interest fixed at 6%-6.85% (2018: 6%) per annum and are repayable within 1 year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

27. FINANCE LEASES PAYABLE

The Group's finance leases arise from the acquisition of the rights to use Synertone 1 satellite bandwidth and the hire purchase of motor vehicles with a fixed lease term of 9.5 years and 4.5 years, respectively. Interest rates underlying all obligations under finance leases are fixed at respective contract rates of 2% (2018: 2% to 4.5%) per annum.

At 31 March 2019, the Group had obligations under finance leases repayable as follows:

	2019		2018	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	551	564	190,112	191,549
After 1 year but within 2 years	124	130	67,363	71,826
After 2 years but within 5 years	–	–	156,056	188,648
	124	130	223,419	260,474
	675	694	413,531	452,023
Less: total future interest expenses		(19)		(38,492)
Present value of lease obligations		675		413,531

During the year ended 31 March 2019, the Group had derecognised the finance leases payable in relation to the outstanding payments for the rights to use Synertone 1 satellite bandwidth upon the termination of the relevant agreements (note 9).

The Group's obligations under finance leases in respect of motor vehicles are secured by the lessor's title to the leased assets.

The Group's finance leases payable are denominated in USD and HK\$, being the functional currency of the relevant group entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

28. CONVERTIBLE BONDS PAYABLE

On 23 May 2017, the Company entered into a subscription agreement with an independent third party (the "Subscriber"), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible bonds in the principal amount of HK\$48,000,000. The conditions of the subscription agreement were fulfilled and completed on 6 June 2017.

Pursuant to the subscription agreement, the convertible bonds shall be issued in tranches in accordance with the written demands by the Company to be made within 1 year after completion date of the subscription agreement. During the year ended 31 March 2018, the Company had issued the convertible bonds in an aggregate principal amount of HK\$20,000,000 with the written demands made to the Subscriber.

The convertible bonds give the holder the right (the "Conversion Right") to convert all or any part of the outstanding principal amount of the convertible bonds into fully paid ordinary shares of HK\$0.05 each in the Company at HK\$0.16 per share (the "Conversion Price"). The Conversion Price is subject to adjustment for share consolidation, share split or reverse share split, share subdivision or other similar event affecting the number of outstanding conversion shares.

The holder can exercise the Conversion Right from time to time during the conversion period from the first anniversary date to the maturity date. The convertible bonds shall mature two years from the date of issue.

The convertible bonds bear interest from the date of issue of the convertible bonds at the rate of 5% per annum on the principal amount of the convertible bonds, payable at the anniversary date annually in arrears.

During the year ended 31 March 2019, the Company had issued the convertible bonds in aggregate principal amount of HK\$28,000,000 with the written demand to the Subscriber. The Subscriber then exercised the Conversion Right to convert all outstanding convertible bonds in an aggregate amount of HK\$48,000,000 into 300,000,000 ordinary shares of the Company at the Conversion Price of HK\$0.16 per share.

The movement of the liability component and equity component of the convertible bonds for the years ended 31 March 2018 and 2019 was set out below:

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 1 April 2017	–	–	–
Issued during the year	16,519	3,481	20,000
Effective interest charged to profit or loss	1,948	–	1,948
At 31 March 2018	18,467	3,481	21,948
At 1 April 2018	18,467	3,481	21,948
Issued during the year	22,432	5,568	28,000
Effective interest charged to profit or loss	1,085	–	1,085
Conversion into ordinary shares	(41,984)	(9,049)	(51,033)
At 31 March 2019	–	–	–

The fair value of the liability component of the convertible bonds is calculated using cash flows discounted at a rate based on the effective interest rate of 15.8%-17.9% per annum (2018: 15.8% per annum).

29. AMOUNT DUE TO A DIRECTOR

The balance is unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

30. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

- (a) Current taxation in the consolidated statement of financial position and the movement during the year is as follows:

	2019 HK\$'000	2018 HK\$'000
At beginning of the year	1,720	9,112
Provision for the year		
– PRC EIT	11	194
Under/(over)-provision in respect of prior years (<i>note 8(a)</i>)		
– PRC EIT	3	(5,379)
Tax payment for the year		
– PRC EIT	(14)	(2,856)
Tax refund for the year		
– PRC EIT	–	94
Disposal of subsidiaries (<i>note 36</i>)	(1,553)	–
Effect of foreign currency exchange differences	(167)	555
At end of the year	–	1,720

- (b) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movement during the year are as follows:

	Accelerated tax depreciation HK\$'000	Fair value adjustment on property, plant and equipment HK\$'000	Fair value adjustment on intangible assets HK\$'000	Total HK\$'000
At 1 April 2017	357	791	20,145	21,293
Credited to profit or loss	(25)	(227)	(15,850)	(16,102)
Effect of foreign currency exchange differences	–	73	1,970	2,043
At 31 March 2018	332	637	6,265	7,234
At 1 April 2018	332	637	6,265	7,234
Credited to profit or loss	(17)	(231)	(2,752)	(3,000)
Disposal of subsidiaries (<i>note 36</i>)	(217)	–	–	(217)
Effect of foreign currency exchange differences	–	(34)	(337)	(371)
At 31 March 2019	98	372	3,176	3,646

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

30. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK\$176,497,000 (2018: HK\$197,637,000) as at 31 March 2019 as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation except for tax losses of RMB99,984,000 (2018: RMB78,728,000) in the PRC which is available for carry forward to offset future taxable profit for a period of five years.

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 22 March 2012 (the "Share Option Scheme") whereby the board of directors or a duly authorised committee thereof may at any time on any business day following the date of adoption and before the tenth anniversary thereof, offer to grant to eligible participants, including directors and employees of the Company or any of its subsidiaries, any person or entity that provides research, development or other technological support to the Company or any of its subsidiaries, an option to subscribe for shares of the Company. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK\$1.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company will not exceed 30% of the issued share capital of the Company.

No option may be granted to any one person in any 12-month period which, if exercised in full, would result in the total number of shares already issued to him/her under all the options previously granted to him/her which have been exercised and, issuable to him/her under all the options previously granted to him/her which are for the time being subsisting and unexercised, exceeding 1% of the share capital of the Company in issue on the last date of such 12-month period unless approval by the shareholders in a general meeting.

The subscription price for shares under the Share Option Scheme will be a price not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant and (iii) the nominal value of the shares.

The share options granted on 24 December 2013 may be exercised in accordance with the following terms of the Scheme as to:

- up to the maximum of one-third of the share options exercisable commencing on 24 December 2015 to 23 December 2016, with vesting period from 24 December 2013 to 23 December 2015, the fair value of each option at the date of grant is approximately HK\$0.2605 ("Lot 1");
- up to a maximum of one-third of the share options exercisable commencing on 24 December 2016 to 23 December 2017, with vesting period from 24 December 2013 to 23 December 2016, the fair value of each option at the date of grant is approximately HK\$0.2778 ("Lot 2");
- all the remaining share options that have not been exercised (including those which have not been exercised under Lot 1 and Lot 2 above) exercisable commencing on 24 December 2017 to 23 December 2018, with vesting period from 24 December 2013 to 23 December 2017, the fair value of each option at the date of grant is approximately HK\$0.3058 ("Lot 3").

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

- (a) The terms and conditions of the grants that existed as at 31 March 2018 are as follows, whereby all options are settled by physical delivery of shares:

	Number of Shares issuable under options <i>(note i)</i>	Exercise price <i>(note i)</i>	Contractual life of options
Options granted to directors: — on 24 December 2013	4,369,812	HK\$2.06	5 years
Options granted to employees: — on 24 December 2013	11,677,112	HK\$2.06	5 years
Options granted to other participants: — on 24 December 2013	29,132,076	HK\$2.06	5 years
	45,179,000	HK\$2.06	

Note:

- (i) The exercise price and number of shares issuable under option granted has been adjusted for the effects of the issue of bonus shares on 21 February 2014, the share consolidation on 24 March 2016 and the rights issue on 28 April 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2019		2018	
	Weighted average exercise price	Number of shares issuable under options granted (note i)	Weighted average exercise price	Number of shares issuable under options granted (note i)
Outstanding at beginning of the year	HK\$2.06	45,179,000	HK\$2.06	58,968,180
Lapsed during the year (note ii)	HK\$2.06	(45,179,000)	HK\$2.06	(13,789,180)
Outstanding at end of the year	N/A	–	HK\$2.06	45,179,000
Exercisable at end of the year	N/A	–	HK\$2.06	45,179,000

Notes:

- (i) The exercise price and number of shares issuable under options granted has been adjusted for the effects of the issue of bonus shares on 21 February 2014, the share consolidation on 24 March 2016 and the rights issue on 28 April 2016.
- (ii) During the year ended 31 March 2019, 655,470 (2018: 13,789,180) share options were lapsed due to the resignation of employees and 44,523,530 (2018: nil) share options were lapsed due to end of the exercisable period. The impact was directly recognised in accumulated losses, with a corresponding adjustment to the share-based compensation reserve.

The share options outstanding at 31 March 2018 had a weighted average remaining contractual life of 0.7 years.

As at 31 March 2018, the number of shares in respect of options under the Share Option Scheme that had been granted and remained outstanding was 45,179,000, representing approximately 1.3% of the shares of the Company in issue at the year-end date.

Each option gives the option holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

No share option was exercised during the years ended 31 March 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes Option Pricing Model. The contractual life of the share option is used as an input into this model.

	Lot 1	Lot 2	Lot 3
Fair value of share options and assumptions	HK\$0.2605	HK\$0.2778	HK\$0.3058
Share price (<i>note</i>)	HK\$2.06	HK\$2.06	HK\$2.06
Exercise price (<i>note</i>)	HK\$2.06	HK\$2.06	HK\$2.06
Contractual life	5 years	5 years	5 years
Expected volatility (expected as weighted average volatility used in the modeling under Black-Scholes Option Pricing Model)	31.510%	31.878%	33.069%
Expected option period (expressed as weighted average life used in the modeling under the Black-Scholes Option Pricing Model)	3.500 years	4.001 years	4.501 years
Expected dividends	5.882%	5.882%	5.882%
Risk-free rate (based on yields of Hong Kong government bonds and treasury bills)	0.835%	1.027%	1.204%

Note: The share price and the exercise price has been adjusted for the effects of the issue of bonus shares on 21 February 2014, the share consolidation on 24 March 2016 and the rights issue on 28 April 2016.

The expected volatility is based on the historical volatilities of the comparable companies of the Company, over the expected option period. Expected dividend yield are based on historical dividend payout of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options granted to other participants are measured at fair values of options granted as these other participants are providing services that are similar to those rendered by employees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

32. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) Movements in components of equity

Notes	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Merger reserve (note 32(c)(v)) HK\$'000	Warrants reserve HK\$'000	Convertible bonds reserve HK\$'000	Accumulated losses HK\$'000	
At 1 April 2017	167,440	745,507	12,740	71,349	6,600	-	(754,035)	249,601
Comprehensive income								
Loss for the year	-	-	-	-	-	-	(161,198)	(161,198)
Total comprehensive loss for the year	-	-	-	-	-	-	(161,198)	(161,198)
Equity-settled share-based payments	-	-	841	-	-	-	-	841
Lapse of share options	-	-	(3,109)	-	-	-	3,109	-
Issue of convertible bonds	28	-	-	-	-	3,481	-	3,481
At 31 March 2018	167,440	745,507	10,472	71,349	6,600	3,481	(912,124)	92,725
At 1 April 2018	167,440	745,507	10,472	71,349	6,600	3,481	(912,124)	92,725
Comprehensive income								
Loss for the year	-	-	-	-	-	-	(55,886)	(55,886)
Total comprehensive loss for the year	-	-	-	-	-	-	(55,886)	(55,886)
Lapse of share options	-	-	(10,472)	-	-	-	10,472	-
Issue of new shares	32(b)	32,651	19,590	-	-	-	-	52,241
Share issuance costs	-	(48)	-	-	-	-	-	(48)
Issue of convertible bonds	28	-	-	-	-	5,568	-	5,568
Issue of shares upon conversion of convertible bonds	28	15,000	36,033	-	-	(9,049)	-	41,984
At 31 March 2019	215,091	801,082	-	71,349	6,600	-	(957,538)	136,584

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

32. CAPITAL AND RESERVES (Continued)

(b) Share capital

	2019		2018	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.05 each				
Authorised:				
At beginning and end of the year	8,000,000	400,000	8,000,000	400,000
Issued and fully paid:				
At beginning of the year	3,348,800	167,440	3,348,800	167,440
Issue of shares upon conversion of convertible bonds (note 28)	300,000	15,000	–	–
Issue of new shares (note 32(b)(i))	653,016	32,651	–	–
At end of the year	4,301,816	215,091	3,348,800	167,440

Note:

- (i) During the year ended 31 March 2019, the Company issued 653,016,000 new shares under general mandate to an independent third party at the subscription price of HK\$0.08 per share. The net proceeds amounting to HK\$52,193,000 have been applied as general working capital purpose.

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (2011 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based compensation reserve

This comprises the portion of fair value of unexercised share options granted to eligible participants of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(r).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

32. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(iii) *Capital reserve*

The capital reserve of the Group represents the differences between the nominal value of the Company's shares issued and the nominal value of shares of LakeWest acquired through a reorganisation in the preparation for the listing of the Company's shares on the Stock Exchange in December 2006.

(iv) *Merger reserve*

The merger reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of LakeWest and its subsidiaries acquired through an exchange of shares in December 2006 pursuant to the reorganisation in the preparation for the listing of the Company's shares on the Stock Exchange, which was not available for distribution.

(v) *Statutory reserve*

Transfers from retained earnings to statutory reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into paid-up capital provided that the balance of the statutory reserve fund after such conversion is not less than 25% of the entity's registered capital.

The Company's certain subsidiaries in the PRC are required to transfer a minimum of 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations to the statutory reserves until the reserve balances reaches 50% of the registered capital. The transfer must be made before distribution of dividends to owners.

The statutory reserve can be utilised in setting off accumulated losses or increasing capital of the respective subsidiary and is non-distributable other than in the event of liquidation.

(vi) *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(v).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

32. CAPITAL AND RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(vii) Warrants reserve

On 28 August 2014, the Company and an independent third party, CITIC Capital Management Limited ("CITIC Management"), entered into a subscription agreement pursuant to which the Company has agreed to issue and CITIC Management has agreed to subscribe for 660,000,000 warrants at the issue price of HK\$0.01 per warrant. Each warrant carries the right to subscribe for one warrant share at the subscription price of HK\$1.98 (subject to adjustment) at any time during the exercise period of five years commencing from the date of issue of the warrant. The subscription was completed on 22 September 2014 and an aggregate of 660,000,000 warrants have been issued (restated to 196,666,667 warrants following share consolidation on 24 March 2016 and the rights issue completed on 28 April 2016).

(viii) Other reserve

The other reserve represents the difference between the consideration paid for the further acquisition of 36% equity interest in Sense Field in March 2017 and the carrying value of non-controlling interest derecognised.

(ix) Convertible bonds reserve

The convertible bonds reserve comprises the value of the equity component of unexercised convertible bonds issued by the Group. The reserve is dealt with in accordance with the accounting policy set out in note 3(n).

(d) Distributability of reserves

As at 31 March 2019, the aggregate amount of reserves available for distribution to owners of the Company, which included accumulated losses and share premium, was nil (2018: nil).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group monitors its capital structure on the basis of the adjusted net debt to equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is defined as total debt (which includes bank and other borrowings, convertible bonds and finance leases payable) less cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

32. CAPITAL AND RESERVES (Continued)

(e) Capital management (Continued)

During 2019, the Group's strategy, which was unchanged from 2018, was to maintain the ratio at a reasonable level. The adjusted gearing ratios at 31 March 2019 and 2018 were as follows:

	2019 HK\$'000	2018 HK\$'000
Bank and other borrowings (note 26)	104,221	171,655
Finance leases payable (note 27)	675	413,531
Convertible bonds payable (note 28)	–	18,467
	104,896	603,653
Less: Cash and cash equivalents (note 24)	(10,599)	(6,877)
Net debt	94,297	596,776
Total equity	139,311	(154,369)
Adjusted gearing ratio	68%	(387)%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33. FINANCIAL INSTRUMENTS BY CATEGORIES

	2019 HK\$'000	2018 HK\$'000
Financial assets		
Financial assets at amortised cost	129,213	–
Loans and receivables (including cash and cash equivalents)	–	274,900
Available-for-sale investments	–	3,900
Financial liabilities		
Financial liabilities at amortised cost	149,735	693,546

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group has exposure to credit risk, liquidity risk, interest rate risk and currency risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to trade and other receivables. The Group's credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit rating agencies, for which the Group considers to have low credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(a) Credit risk (Continued)

The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 March 2019, the Group has a certain concentration of credit risk as 34% (2018: 64%) of the trade receivables were due from the Group's five largest customers.

In order to minimise the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its debtors' financial position and condition are performed on each major customer periodically. These evaluations focus on the debtors' past history of making payments when due and current ability to pay, and take into account information specific to the debtors as well as pertaining to the economic environment in which the debtors operate. The Group do not require collateral from its debtors. Debts are usually due within 30 to 180 days from the date of billing.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The following table details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2019	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts HK\$'000
Trade and other receivables	23	N/A	Note (i)	Lifetime ECL (provision matrix)	141,393
		N/A	Note (ii)	12-month ECL	70,672
Cash and cash equivalents	24	N/A	Note (iii)	12-month ECL	10,599

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(a) Credit risk (Continued)

Notes:

- (i) The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 March 2019:

	Average loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
0-60 days	15.08%	12,109	1,826
61-90 days	2.63%	2,966	78
91-180 days	2.83%	9,732	275
181-365 days	2.86%	6,849	196
Over 365 days	82.99%	109,737	91,076
		141,393	93,451

For long overdue trade receivables, the Group regularly reviews the specific circumstances of each major customer to determine if any follow-up action has to be taken. An extension of credit period may be granted by the Group to customers with long business relationship and established reputation; customers which are distributors that have difficulty in receiving payments from final customers; customers which are government-related entities that are subject to strictly regulated government annual budgeting process and payment approval procedures; and customers for which a repayment plan has been arranged.

For the purpose of assessment of ECLs, expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

- (ii) For the loan and other receivables as at 31 March 2019, the management of the Group takes into account the historical default experience and forward-looking information, as appropriate, for example the Group considers the consistently low historical default rates of counterparties, and concludes that credit risk inherent in the Group's outstanding these receivables are insignificant. The management of the Group has assessed that these receivables do not have a significant increase in credit risk since initial recognition and risk of default is insignificant, therefore the ECL for these receivables were immaterial under the 12-month ECL method and no loss allowance was recognised during the year.
- (iii) In relation to the Group's deposit with bank, the Group limits its exposure to credit risk by placing deposits with financial institution with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to parent company's board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Within 1 year or On demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total contractual undiscounted amount HK\$'000	Carrying amount HK\$'000
As at 31 March 2019						
Non-derivative financial liabilities						
Trade payables	19,031	–	–	–	19,031	19,031
Accrued salaries	3,268	–	–	–	3,268	3,268
Accrued expenses and other payables	16,827	–	–	–	16,827	16,827
Bills payable	5,712	–	–	–	5,712	5,712
Amount due to a director	1	–	–	–	1	1
Bank and other borrowings	108,668	–	–	–	108,668	104,221
Finance leases payable	564	130	–	–	694	675
	154,071	130	–	–	154,201	149,735

	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total contractual undiscounted amount HK\$'000	Carrying amount HK\$'000
As at 31 March 2018						
Non-derivative financial liabilities						
Trade payables	37,505	–	–	–	37,505	37,505
Accrued salaries	8,147	–	–	–	8,147	8,147
Accrued expenses and other payables	33,216	–	–	–	33,216	33,216
Bills payable	6,365	–	–	–	6,365	6,365
Amount due to a director	1	–	–	–	1	1
Bank and other borrowings	174,079	–	–	–	174,079	171,655
Finance leases payable	191,549	71,826	188,648	–	452,023	413,531
Convertible bonds payable	1,000	21,000	–	–	22,000	18,467
	451,862	92,826	188,648	–	733,336	688,887

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits, loan receivables and borrowings.

The Group is exposed to cash flow interest rate risk in relation to the Group's bank deposits which is mainly concentrated on the fluctuation of market interest rate. The Group is also exposed to fair value interest rate risk in respect of its fixed-rate loan receivables, fixed-rate bank and other borrowings, finance leases payable and convertible bonds payable.

The Group aims at keeping borrowings at fixed rates.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing assets and liabilities at the end of the reporting period:

	2019		2018	
	Range of interest rates	HK\$'000	Range of interest rates	HK\$'000
Fixed-rate borrowings:				
Bank and other borrowings	5.22%-6.85%	104,221	5.22%-6.5%	171,655
Convertible bonds payable	N/A	–	15.80%	18,467
Finance leases payable	1.98%	675	1.98%-4.486%	413,531
		104,896		603,653
Fixed-rate loan receivables:				
Loan receivables	6%	55,000	5%	30,000
Variable-rate bank deposits:				
Cash at bank	0.001%-0.35%	10,599	0.001%-0.35%	6,877

(ii) Sensitivity analysis

Loan receivables and borrowings of the Group are fixed-rate instruments which are insensitive to any changes in interest rates. A change in interest rate at the end of the reporting period would not affect profit or loss.

No sensitivity analysis for interest rate risk exposure to variable-rate bank deposits is presented as the management considered that the amount involved is insignificant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US\$ and RMB.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK\$, translated using the spot rate at the year-end date.

	Exposure to foreign currencies (expressed in HK\$'000)			
	2019		2018	
	US\$	RMB	US\$	RMB
Trade and other receivables	871	–	3,131	–
Cash and cash equivalents	1	10	1	12
Trade and other payables	(1,233)	–	(1,351)	–
Net exposure arising from recognised assets and liabilities	(361)	10	1,781	12

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after taxation and accumulated losses that would arise if exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HK\$ and US\$ would be materially unaffected by any changes in value of US\$ against other currencies.

	Exposure to foreign currencies (expressed in HK\$'000)					
	2019			2018		
	Increase/ (decrease) in foreign exchange rates	Effect on profit/loss after taxation	Effect on accumulated losses	Increase/ (decrease) in foreign exchange rates	Effect on profit/loss after taxation	Effect on accumulated losses
RMB	5% (5%)	(1) 1	(1) 1	5% (5%)	(1) 1	(1) 1

Results of the analysis is presented in the above table represent an aggregate of the instantaneous effects on each of the group entities' profit/loss after taxation and equity measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2018.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the expose during the year.

(e) Fair value measurement

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other borrowings HK\$'000	Finance leases payable HK\$'000	Convertible bonds payable HK\$'000	Interest payable (included in other payables) HK\$'000	Total HK\$'000
At 1 April 2017	165,240	406,074	–	47	571,361
Changes from cash flows:					
– Borrowings raised	117,128	–	–	–	117,128
– Repayment of borrowings	(119,576)	–	–	–	(119,576)
– Repayment of finance leases	–	(14,819)	–	–	(14,819)
– Issue of convertible bonds	–	–	20,000	–	20,000
– Interest paid	(4,591)	–	–	–	(4,591)
Non-cash changes					
– Finance costs recognised	4,591	18,290	1,948	4,612	29,441
– Equity component of convertible bonds	–	–	(3,481)	–	(3,481)
– Effect of foreign exchange rate changes	8,863	3,986	–	–	12,849
At 31 March 2018	171,655	413,531	18,467	4,659	608,312
At 1 April 2018	171,655	413,531	18,467	4,659	608,312
Changes from cash flows:					
– Borrowings raised	168,147	–	–	–	168,147
– Repayment of borrowings	(229,544)	–	–	–	(229,544)
– Repayment of finance leases	–	(2,011)	–	–	(2,011)
– Issue of convertible bonds	–	–	28,000	–	28,000
– Interest paid	(7,214)	–	–	(4,659)	(11,873)
Non-cash changes					
– Finance costs recognised	7,214	10,842	1,085	–	19,141
– Equity component of convertible bonds	–	–	(5,568)	–	(5,568)
– Conversion of convertible bonds into ordinary shares (note 28)	–	–	(41,984)	–	(41,984)
– Disposal of subsidiaries (note 36)	–	(9,889)	–	–	(9,889)
– Settlement by transfer of property, plant and equipment (note 9)	–	(39,228)	–	–	(39,228)
– Release upon early termination of finance lease arrangement (note 9)	–	(372,449)	–	–	(372,449)
– Effect of foreign exchange rate changes	(6,037)	(121)	–	–	(6,158)
At 31 March 2019	104,221	675	–	–	104,896

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

36. DISPOSAL OF SUBSIDIARIES

The analysis of assets and liabilities of Vastsuccess and Synertone Satellite at the date of disposal as detailed in note 9 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 leases payable	(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	–

Net cash outflow arising on disposal:

	HK\$'000
Cash consideration received	–
Less: Bank balances and cash disposed of	(611)
	(611)

The impact of Vastsuccess and Synertone Satellite on the Group's results and cash flows in the current and prior years is disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

37. COMMITMENTS

- (a) Capital commitments outstanding at 31 March 2019 not provided for in the consolidated financial statements were as follows:

	2019 HK\$'000	2018 HK\$'000
Contracted but not provided for		
Property, plant and equipment	–	58,647
Renovation of new office	1,676	1,794
	1,676	60,441

- (b) As at 31 March 2019, the total future minimum lease payment under non-cancellable operating lease are payable as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	4,279	7,066
In the second to fifth year inclusive	5,500	10,796
	9,779	17,862

Operating lease payments represent rental payable by the Group for certain of its office and factory premises. Leases are negotiated for an average of 1 to 10 years during which rentals are fixed. None of the leases includes contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

38. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

(a) Balances with related parties

(i) Amount due to a director

At the end of each reporting period, the Group had the following balances with related parties:

	2019 HK\$'000	2018 HK\$'000
Wong Chit On	1	1

(b) Transactions with key management personnel

Emoluments for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11 are as follows:

	2019 HK\$'000	2018 HK\$'000
Short-term employee benefits	8,051	8,528
Equity-settled share-based payments	–	183
Post-employment benefit	140	97
	8,191	8,808

Total emoluments is included in "Staff Costs" (see note 7(b)).

(c) Guarantee

During the year, a personal guarantee was given by Mr. Wong Chit On, Chairman and executive director of the Company, for the purchase of motor vehicles under finance leases through financial institutions with the carrying value of finance leases payable as follows:

	2019 HK\$'000	2018 HK\$'000
Finance leases payable guaranteed by a director	675	2,596

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2019

39. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform with current year's presentation.

40. EVENT AFTER THE REPORTING PERIOD

There is no significant events that have occurred subsequent to the end of the reporting period.

41. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investments in subsidiaries		–	–
Current assets			
Other receivables		57,859	–
Prepayments		62	267
Amounts due from subsidiaries		78,671	118,384
Cash and cash equivalents		3,951	–
		140,543	118,651
Current liabilities			
Other payables		3,259	2,815
Amount due to a director		1	1
Amounts due to subsidiaries		699	4,643
		3,959	7,459
Non-current liabilities			
Convertible bonds payable	28	–	18,467
Net assets		136,584	92,725
EQUITY	32		
Share capital		215,091	167,440
Reserves		(78,507)	(74,715)
Total equity		136,584	92,725

Approved and authorised for issue by the board of directors on 28 June 2019.

Wong Chit On
Director

Han Weining
Director

FIVE YEARS SUMMARY

	For the year ended 31 March				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
For continuing and discontinued operations					
Revenue	81,005	93,763	144,677	106,376	329,667
Cost of sales	(54,224)	(78,743)	(116,594)	(117,504)	(163,732)
Gross profit/(loss)	26,781	15,020	28,083	(11,128)	165,935
Profit/(loss) before taxation	203,198	(570,739)	(209,350)	(470,555)	63,748
Income tax	2,986	21,287	7,934	1,646	(30,009)
Profit/(loss) for the year	206,184	(549,452)	(201,416)	(468,909)	33,739
Attributable to:					
Owners of the Company	208,667	(545,125)	(196,693)	(469,702)	33,739
Non-controlling interests	(2,483)	(4,327)	(4,723)	793	–
Profit/(loss) for the year	206,184	(549,452)	(201,416)	(468,909)	33,739

	As at 31 March				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Current assets	183,833	341,349	336,501	328,368	403,491
Non-current assets	121,669	217,741	621,307	791,071	725,228
Total assets	305,502	559,090	957,808	1,119,439	1,128,719
Current liabilities	162,421	464,339	381,449	303,144	196,870
Non-current liabilities	3,770	249,120	295,483	391,997	410,578
Total liabilities	166,191	713,459	676,932	695,141	607,448
Net assets/(liabilities)	139,311	(154,369)	280,876	424,298	521,271
Share capital	215,091	167,440	167,440	83,720	64,450
Reserves	(83,696)	(333,530)	98,876	281,216	456,821
Equity attributable to owners of the Company	131,395	(166,090)	266,316	364,936	521,271
Non-controlling interests	7,916	11,721	14,560	59,362	–
Total equity	139,311	(154,369)	280,876	424,298	521,271