



2017

INTERIM REPORT

協同通信集團有限公司
Synertone Communication Corporation

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1613



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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 (*Chairperson*)

Mr. Wang Chen

Ms. Li Mingqi

Nomination Committee

Mr. Wang Chen (*Chairperson*)

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 THE PRC

Block B, Teng Bang Building

1st Qingshuihe Road, Luohu District

Shenzhen, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1012, 10/F

Tsim Sha Tsui Centre

66 Mody Road

Kowloon, Hong Kong

CORPORATE INFORMATION *(Continued)*

PRINCIPAL BANKERS

HONG KONG

The Hongkong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

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
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISER

Alvan Liu & Partners
25 & 26th Floors
Central 88
88 Des Voeux Road Central
Hong Kong

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

WEBSITE

www.synertone.net

STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1613

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Synertone Communication Corporation (the “**Company**”) hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2017, together with the comparative figures for the corresponding period in 2016, as follows:

	NOTES	For the six months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	4	40,772	50,102
Cost of sales		(49,185)	(48,323)
Gross (loss) profit		(8,413)	1,779
Other income	5	6,674	21,434
Other gains and losses	5	1,422	–
Fair value change on derivative financial instruments		–	(34,697)
Selling and distribution expenses		(8,150)	(7,602)
Administrative expenses		(37,252)	(46,655)
Research and development expenditure		(13,518)	(15,597)
Impairment loss of trade receivables		(12,502)	–
Impairment loss of goodwill		(1,805)	–
Loss from operations		(73,544)	(81,338)
Finance costs	6(a)	(14,190)	(13,714)
Share of results of an associate		(985)	240
Loss before taxation	6	(88,719)	(94,812)
Income tax credit	7	1,856	7,591
Loss for the period		(86,863)	(87,221)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

For the six months ended 30 September 2017

		For the six months ended 30 September	
		2017	2016
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Attributable to:			
Owners of the Company		(84,403)	(81,795)
Non-controlling interests		(2,460)	(5,426)
		(86,863)	(87,221)
		HK cents	HK cents
Loss per share	9		
– Basic		(2.52)	(2.60)
– Diluted		(2.52)	(2.60)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	For the six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(86,863)	(87,221)
Other comprehensive income (loss) for the period		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	20,991	(15,484)
Total comprehensive loss for the period	(65,872)	(102,705)
Attributable to:		
Owners of the Company	(64,149)	(93,629)
Non-controlling interests	(1,723)	(9,076)
	(65,872)	(102,705)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

		As at 30 September 2017 HK\$'000 (Unaudited)	As at 31 March 2017 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	102,372	98,703
Prepaid lease payments		8,681	8,405
Intangible assets	11	291,525	314,359
Goodwill	12	191,853	185,340
Interest in an associate		1,644	2,538
Available-for-sale investments		3,900	3,900
Prepayment for acquisition of property, plant and equipment	13	8,103	8,062
		608,078	621,307
Current assets			
Inventories		40,668	35,867
Trade and other receivables	13	255,725	282,359
Prepaid lease payments		203	194
Tax recoverable		94	90
Cash and cash equivalents		7,109	17,991
		303,799	336,501
Current liabilities			
Trade and other payables	14	86,558	75,122
Bank and other borrowings	15	158,841	165,240
Finance lease payables	16	187,735	131,884
Amount due to a director	21(a)	1	1
Current taxation		7,062	9,202
		440,197	381,449

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 September 2017

		As at 30 September 2017 HK\$'000 (Unaudited)	As at 31 March 2017 HK\$'000 (Audited)
Net current liabilities		(136,398)	(44,948)
Total assets less current liabilities		471,680	576,359
Non-current liabilities			
Finance lease payables	16	215,336	274,190
Convertible bonds	17	17,164	–
Deferred tax liabilities		20,130	21,293
		252,630	295,483
Net assets		219,050	280,876
Capital and reserves			
Share capital	18	167,440	167,440
Reserves		38,773	98,876
Equity attributable to owners of the Company		206,213	266,316
Non-controlling interests		12,837	14,560
Total equity		219,050	280,876

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Attributable to owners of the Company													
	Share capital	Share premium	Share compensation reserve	Share-based reserve	Warrant reserve	Convertible bonds reserve	Capital reserve	Statutory reserve	Other reserve	Translation reserve	Accumulated losses	Total equity	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2016 (Audited)	83,720	622,656	18,303	6,600	6,600	(90)	35,169	-	856	(402,458)	364,956	59,262	424,298	
Loss for the period	-	-	-	-	-	-	-	-	-	(81,795)	(81,795)	(5,426)	(87,221)	
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(11,834)	-	(11,834)	(9,650)	(15,484)	
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(11,834)	(81,795)	(93,629)	(9,076)	(102,705)	
Equity-settled share based payments issue of shares upon rights issue of shares (Note 18)	83,720	125,500	-	-	-	-	-	-	-	-	1,956	-	1,956	
Share issuance costs	-	(1,854)	-	-	-	-	-	-	-	-	(1,856)	-	(1,856)	
At 30 September 2016 (Unaudited)	167,440	746,300	20,459	6,600	6,600	(90)	35,169	-	(10,978)	(484,253)	480,687	50,286	530,973	
At 1 April 2017 (Audited)	167,440	745,507	12,740	6,600	6,600	(90)	40,737	(82,057)	(28,316)	(596,245)	266,316	14,560	280,876	
Loss for the period	-	-	-	-	-	-	-	-	-	(84,403)	(84,403)	(2,440)	(86,843)	
Other comprehensive income for the period	-	-	-	-	-	-	-	-	20,254	-	20,254	737	20,991	
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	20,254	(84,403)	(64,149)	(1,723)	(65,872)	
Equity-settled share based payments	-	-	565	-	-	-	-	-	-	-	-	565	-	565
Lapse of share options	-	-	(1,387)	-	-	-	-	-	-	-	1,387	-	-	-
Issue of convertible bonds (Note 17)	-	-	-	-	-	3,481	-	-	-	-	-	3,481	-	3,481
At 30 September 2017 (Unaudited)	167,440	745,507	11,918	6,600	6,600	(90)	40,737	(82,057)	(8,062)	(679,261)	206,213	12,837	219,050	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2017

	For the six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash used in operating activities	(566)	(41,550)
Investing activities		
Additions of property, plant and equipment	(5,361)	(32,031)
Interest received	508	353
Loan to an independent third party	–	(20,000)
Other investing cash flows	431	(65)
Net cash used in investing activities	(4,422)	(51,743)
Financing activities		
Proceeds from bank and other borrowings	41,995	30,693
Repayment of bank and other borrowings	(52,125)	(55,114)
Repayment of finance lease payables	(14,189)	(24,025)
Proceeds from issue of convertible bonds	20,000	–
Interest paid	(2,085)	(3,332)
Deposit paid for acquisition of additional equity interest in a subsidiary	–	(35,000)
Proceeds from issue of new shares	–	209,300
Other financing cash flows	–	(1,856)
Net cash (used in) from financing activities	(6,404)	120,666
Net (decrease) increase in cash and cash equivalents	(11,392)	27,373
Cash and cash equivalents at beginning of the period	17,991	12,421
Effect of foreign exchange rates changes	510	(333)
Cash and cash equivalents at end of the period, representing bank balances and cash	7,109	39,461

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. GENERAL

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

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

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

The principal operations of the Group are conducted in the People's Republic of China (the "**PRC**"). The condensed consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the functional currency of the Company, as the Directors consider that presenting in HK\$ is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to its immediate parent and ultimate holding company whose functional currency is HK\$.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements.

The HKICPA has issued several amendments to Hong Kong Financial Reporting Standards (“**HKFRS**”) that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the condensed consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group incurred a loss attributable to owners of the Company of approximately HK\$84,403,000 during the six months ended 30 September 2017, and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$136,398,000. In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern:

- (a) Convertible bonds in aggregate principal amount of HK\$28,000,000 can be further issued to a subscriber under the subscription agreement signed on 23 May 2017 (note 17).
- (b) Certain existing property, plant and equipment can be offered as security for further financing.
- (c) Under the finance lease of the exclusive right to use Synertone 1 satellite bandwidth, the Group incurs liabilities to pay the lessor amounts calculated according to the relevant agreements in the carrying value of HK\$399,943,000 at the end of the reporting period, comprising HK\$186,526,000 recorded under current liabilities and HK\$213,417,000 recorded under non-current liabilities. The said amount of HK\$186,526,000 is under dispute and negotiation with the lessor.
- (d) The Group is able to generate sufficient operating cash flows to meet its current and future obligations.

Having taken into account the above, the Directors consider that the Group will have sufficient working capital to enable the Group to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period and accordingly, the condensed consolidated financial statements of the Group have been prepared on a going concern basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On adopting HKFRS 8, *Operating Segments*, and in a manner consistent with the way in which information is reported internally to the chief executive officer of the Company, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments:

Communication Technology:	Provision of specialised communication systems, equipment and system technologies, including digital trunking system, Very Small Aperture Terminal (" VSAT ") satellite system and operation integrated system.
Synertone 1 Satellite Communication:	Provision of satellite bandwidth capacity and communication service application.
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

3. SEGMENT REPORTING *(Continued)*

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

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 lease payables managed directly by the segments with the exception of convertible bonds 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 goodwill, change in fair value of derivative financial instruments, share of results of an associate and items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

3. SEGMENT REPORTING (Continued)

Segment revenue and results

	For the six months ended 30 September 2017				
	Communication	Synertone 1	Building	Industrial	Total
	technology	satellite	intelligence	control	
	HKS'000	communication	and smart	system	
	(Unaudited)	(Unaudited)	home	(Unaudited)	HKS'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	2,497	8,065	22,069	10,104	42,735
Inter-segment revenue	-	-	(1,946)	(17)	(1,963)
Reportable segment revenue	2,497	8,065	20,123	10,087	40,772
Reportable segment loss (Adjusted EBIT)	(28,123)	(17,403)	(14,434)	(4,515)	(64,475)
Impairment loss of goodwill					(1,805)
Interest income					508
Finance costs					(14,190)
Share of results of an associate					(985)
Unallocated corporate expenses					(7,772)
Consolidated loss before taxation					(88,719)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

3. SEGMENT REPORTING (Continued)

Segment revenue and results (Continued)

	For the six months ended 30 September 2016				Total HK\$'000 (Unaudited)
	Communication technology HK\$'000 (Unaudited)	Synertone 1 satellite communication HK\$'000 (Unaudited)	Building intelligence and smart home HK\$'000 (Unaudited)	Industrial control system HK\$'000 (Unaudited)	
Revenue from external customers	1,790	2,121	36,530	9,661	50,102
Inter-segment revenue	-	-	-	-	-
Reportable segment revenue	1,790	2,121	36,530	9,661	50,102
Reportable segment profit/(loss) (Adjusted EBIT)	(10,997)	(20,566)	1,768	(3,112)	(32,907)
Interest income					1
Fair value change on derivative financial instruments					(34,697)
Finance costs					(13,714)
Unallocated corporate expenses					(13,495)
Consolidated loss before taxation					(94,812)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

3. SEGMENT REPORTING *(Continued)*

Segment assets and liabilities

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Assets		
Communication technology	258,607	270,498
Synertone 1 satellite communication	245,530	268,517
Industrial control system	167,552	200,642
Building intelligence and smart home	207,485	184,768
	<hr/>	
Total segment assets	879,174	924,425
Available-for-sale investments	3,900	3,900
Unallocated corporate assets	28,803	29,483
	<hr/>	
Consolidated total assets	911,877	957,808
Liabilities		
Communication technology	34,283	19,983
Synertone 1 satellite communication	412,380	414,285
Industrial control system	13,066	9,771
Building intelligence and smart home	134,090	123,761
	<hr/>	
Total segment liabilities	593,819	567,800
Amount due to a director	1	1
Convertible bonds	17,164	–
Deferred tax liabilities	20,130	21,293
Unallocated corporate liabilities	61,713	87,838
	<hr/>	
Consolidated total liabilities	692,827	676,932

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

4. REVENUE

Revenue represents the sales value (net of value-added and business taxes) of goods supplied to customers, less any goods returns and trade discounts. The amount of each significant category of revenue recognised during the period is as follows:

	For the six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Specialised communication systems and technologies	2,497	1,790
Synertone 1 satellite system	8,065	2,121
Building intelligence and smart home	20,123	36,530
Industrial control system	10,087	9,661
	40,772	50,102

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Other income		
Interest income on bank deposits (note a)	7	20
Interest income on loan receivable (note a)	501	333
Government grants (note b)	428	9,665
Value-added taxes refund (note c)	1,507	1,823
Recovery of bad debts written off	–	9,444
Recovery of impaired trade receivables	2,755	–
Sundry income	1,476	149
	6,674	21,434
Other gains and losses		
Net exchange gain	1,028	–
Net gain on disposal of property, plant and equipment	394	–
	1,422	–
	8,096	21,434

Notes:

- Interest income on bank deposits and loan receivable represents the total interest income on financial assets not at fair value through profit or loss ("FVTPL").
- 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".
- Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging (crediting):

(a) Finance costs

	For the six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Total interest expense on financial liabilities not at FVTPL:		
Interest expense on bank and other borrowings	4,415	3,332
Finance charges on finance lease payables	9,130	10,382
Effective interest on convertible bonds	645	–
	14,190	13,714

(b) Other items

	For the six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cost of inventories recognised as expense	23,077	28,083
Amortisation of intangible assets	27,437	28,082
Depreciation of property, plant and equipment	5,597	6,988
Allowance for inventories	662	–
Reversal of write down of inventories	–	(2,433)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

7. INCOME TAX CREDIT

	For the six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT") <i>(note d)</i>	199	–
Deferred tax		
Origination and reversal of temporary differences	(2,055)	(7,591)
	(1,856)	(7,591)

Notes:

- The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.
- 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.
- No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

7. INCOME TAX CREDIT *(Continued)*

Notes: (Continued)

- (d) One of the PRC subsidiaries of the Group, 協同通信技術有限公司 (Synertone Communication Technology Limited), being the foreign invested “encouraged hi-tech enterprise” was entitled to a preferential EIT rate of 15%. The period of grant of preferential EIT rate is valid for three years starting from 19 June 2015.

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

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

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

8. DIVIDENDS

During the six months ended 30 September 2017, no dividend was paid or proposed by the Company, nor has any dividend been proposed since the end of the reporting period (six months ended 30 September 2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$84,403,000 (six months ended 30 September 2016: HK\$81,795,000) and the weighted average number of 3,348,800,000 ordinary shares (six months ended 30 September 2016: 3,144,375,000 ordinary shares) in issue during the period.

(b) Diluted loss per share

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

	For the six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company	(84,403)	(81,795)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	3,348,800	3,144,375
Adjustment for warrants	–	–
Adjustment for share options	–	–
Adjustment for convertible bonds	–	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	3,348,800	3,144,375

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

9. LOSS PER SHARE (Continued)

(b) Diluted loss per share (Continued)

For the six months ended 30 September 2017 and 2016, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and warrants as the exercise prices of such share options and warrants were higher than the average market price per share.

For the six months ended 30 September 2017, the computation of diluted loss per share did not assume the exercise of the Company's outstanding convertible bonds issued during the period as the conversion price was higher than the average market price per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2017, the Group spent HK\$5,361,000 (Six months ended 30 September 2016: HK\$35,356,000) on additions to property, plant and equipment.

11. INTANGIBLE ASSETS

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Technical know-how for digital trunking system (note a)	–	235
Administrative system costs	76	118
Rights to use Synertone 1 satellite bandwidth (note b)	215,156	233,370
Safe communication technologies softwares (note c)	22,614	23,189
Patents and software (note d)	42,257	44,752
Trademark (note d)	2,511	2,783
Customer relationship (note e)	8,911	9,912
	291,525	314,359

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

11. INTANGIBLE ASSETS *(Continued)*

Notes:

- (a) Technical know-how for digital trunking system represents technical know-how acquired by the Group in relation to the production of specialised 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.
- (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 system 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.

The amortisation charge for the period is included in cost of sales, research and development expenditure and administrative expenses in the condensed consolidated statement of profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

12. GOODWILL

The carrying amount of goodwill as at 30 September 2017 has been allocated to three individual cash generating units as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Provision of safe communication technologies	1,992	1,907
Building intelligence and smart home	5,750	5,503
Industrial control system	184,111	177,930
	191,853	185,340

During the six months ended 30 September 2017, the Group recognised impairment loss of HK\$1,805,000 (six months ended 30 September 2016: nil) under industrial control system cash generating unit as management of the Group determines that the carrying amount of those assets related to the cash generating unit exceeded the recoverable amount at the end of each reporting period. As the industrial control system cash generating unit has 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

13. TRADE AND OTHER RECEIVABLES

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Trade receivables (<i>notes a, b, c</i>)	190,520	201,224
Less: Allowance for doubtful debts	(84,390)	(71,178)
	106,130	130,046
Bills receivable	94	3,216
Loan receivable (<i>note d</i>)	20,000	20,000
Other receivables	58,456	57,859
Advances to suppliers	50,938	48,750
Prepaid value-added and other taxes	11,194	8,100
Other prepayments and deposits	17,016	22,450
	263,828	290,421
Analysed for reporting purposes as:		
Non-current assets	8,103	8,062
Current assets	255,725	282,359
	263,828	290,421

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

13. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

- (a) For certain contracts, retention money representing 5% to 10% of the contract is not due until the warranty period expires, which varies from one year to two years. Included in trade receivables as at 30 September 2017 is retention money of HK\$219,000 (31 March 2017: HK\$252,000) which are expected to be recovered after the warranty period.
- (b) For the six months ended 30 September 2017, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (31 March 2017: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2017: 181 to 365 days) may be granted 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.
- (c) The aging analysis of trade receivables based on invoice date is as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
0 – 60 days	14,883	17,801
61 – 90 days	1,959	8,996
91 – 180 days	11,483	31,292
181 – 365 days	31,780	6,646
Over 365 days	130,415	136,489
	190,520	201,224
Less: Allowance for doubtful debts	(84,390)	(71,178)
	106,130	130,046

- (d) Loan receivable represents the amount advanced to an independent third party which is unsecured, interest bearing at 5% per annum and recoverable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

14. TRADE AND OTHER PAYABLES

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Trade payables	34,952	34,017
Bill payables	5,532	6,616
Accrued salaries	7,513	4,959
Accrued expenses and other payables	28,356	19,899
Financial liabilities measured at amortised cost	76,353	65,491
Deferred government grant	2,354	2,253
Deposits received from customers	4,928	3,010
Other tax payables	2,923	4,368
	86,558	75,122

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

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
0 – 60 days	7,044	6,304
61 – 90 days	1,953	4,011
91 – 180 days	4,769	3,606
181 – 365 days	9,998	4,246
Over 365 days	11,188	15,850
	34,952	34,017

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

15. BANK AND OTHER BORROWINGS

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Bank borrowings		
– secured	42,370	40,550
– unsecured	44,371	42,690
Unsecured other borrowings	72,100	82,000
	158,841	165,240

As at 30 September 2017 and 31 March 2017, all of the Group's bank and other borrowings are repayable within one year.

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. As at 30 September 2017, none of the covenants relating to drawn down facilities had been breached (31 March 2017: Nil).

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

All the bank and other borrowings are fixed-rate borrowings which carry interest at prevailing interest rates of 4.79%–7.20% per annum for the period ended 30 September 2017 (31 March 2017: 4.79%–7.20% per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

16. FINANCE LEASE PAYABLES

The Group's finance leases arise from the acquisition of the rights to use Synertone 1 satellite bandwidth and 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 ranging from 2% to 4.5% (31 March 2017: 2% to 4.5%) per annum.

As at 30 September 2017, the Group had obligation under finance leases repayable as follows:

	30 September 2017		31 March 2017	
	Present value of minimum lease payments HK\$'000 (Unaudited)	Total minimum lease payments HK\$'000 (Unaudited)	Present value of minimum lease payments HK\$'000 (Audited)	Total minimum lease payments HK\$'000 (Audited)
Within one year	187,735	190,661	131,884	133,308
After 1 year but within 2 years	65,623	71,497	66,717	71,137
After 2 years but within 5 years	149,713	188,366	181,716	211,320
After 5 years	-	-	25,757	46,628
	215,336	259,863	274,190	329,085
	403,071	450,524	406,074	462,393
Less: Total future interest expenses		(47,453)		(56,319)
Present value of lease obligations		403,071		406,074

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

17. CONVERTIBLE BONDS

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 current interim period, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2017

17. CONVERTIBLE BONDS (Continued)

The movement of the liability component and equity component of the convertible bonds for the current interim period was set out below:

	Liability component HK\$'000 (Unaudited)	Equity component HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At beginning of the period	–	–	–
Issued during the period	16,519	3,481	20,000
Effective interest charged to profit or loss	645	–	645
At end of the period	17,164	3,481	20,645

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% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

18. SHARE CAPITAL

	30 September 2017		31 March 2017	
	No. of shares '000	Amount HK\$'000 (Unaudited)	No. of shares '000	Amount HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.05 each	8,000,000	400,000	8,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK\$0.05 each				
At beginning of the period/year	3,348,800	167,440	1,674,400	83,720
Issue of shares upon rights issue <i>(note)</i>	-	-	1,674,400	83,720
At end of the period/year	3,348,800	167,440	3,348,800	167,440

Note: During the year ended 31 March 2017, the Company issued 1,674,400,000 new shares upon completion of the rights issue on the basis of one rights share for every ordinary share in issue at the subscription price of HK\$0.125 per rights share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

19. COMMITMENTS

- (a) As at 30 September 2017, the Group had the following capital commitments:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Contracted but not provided for in the condensed consolidated financial statements:		
– Acquisition of plant and equipment	57,459	57,995
– Renovation of office	1,692	1,620
	59,151	59,615

- (b) As at 30 September 2017, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Within one year	6,010	6,282
In the second to fifth year inclusive	12,686	14,829
	18,696	21,111

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

20. PROFIT GUARANTEE

During the year ended 31 March 2017, the Group further acquired 36% equity interest in Sense Field Group Limited ("**Sense Field**"), an indirect non-wholly-owned subsidiary of the Company, for a cash consideration of HK\$130,000,000 and had paid HK\$117,000,000 to the then shareholders of Sense Field being the vendors. In accordance with the relevant acquisition agreement, the remaining HK\$13,000,000 (the "**Retention Funds**") shall be paid by the Group to the vendors within 14 business days after the consolidated audited accounts of Sense Field and its subsidiaries (the "**Sense Field Group**") for the year ended 31 December 2016 become available, provided that the earnings before interest, tax, depreciation and amortisation ("**EBITDA**") of the Sense Field Group for the year ended 31 December 2016 is not less than HK\$40,000,000 (the "**First-year Target**").

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

- (a) the Retention Funds, when the aggregate EBITDA for the two years ending 31 December 2017 exceeds HK\$95,000,000 (the "**Two-year Target**"); or
- (b) the difference between the Retention Funds and the shortfall, calculated by the Two-year Target minus the aggregate EBITDA for the two years ending 31 December 2017 (the "**Shortfall**"), when the Two-year Target cannot be met. If the Retention Funds is not sufficient to cover the Shortfall, the Group shall not be required to pay any amount to the vendors and the vendors shall indemnify the Group an amount equivalent to the difference between the Retention Funds and the Shortfall.

No provision for the above profit guarantee arrangement is recognised at the end of each reporting period as the Directors considered that: (a) the First-year Target has not been met; and (b) taking into account the unaudited consolidated management accounts for the nine months ended 30 September 2017 and the profit forecast for the three months ending 31 December 2017 prepared by management of the Sense Field Group, the Two-year Target is unlikely to be met and the probability that the Retention Funds being sufficient to cover the Shortfall is remote.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

21. MATERIAL RELATED PARTY TRANSACTIONS

The Group entered into the following significant transactions with its related parties during the period:

(a) Balances with related parties

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

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Amount due to a director		
Wong Chit On	1	1

The amount is unsecured, interest free and repayable on demand.

(b) Transactions with key management personnel

The remuneration of directors and other members of key management of the Group during the period is as follows:

	For the six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Salaries and other short term benefits	4,072	3,506
Equity-settled share based payments	122	305
Post-employment benefits	56	36
	4,250	3,847

The remuneration of directors and other key executives is determined having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2017

21. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Guarantee

At the end of each reporting period, a personal guarantee was given by a Director for the purchase of motor vehicles under finance lease through financial institutions with the carrying amount of finance lease payables as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Finance lease payables guaranteed by a director	3,084	3,062

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The principal businesses of the Group include (i) design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) provision of Synertone 1 satellite bandwidth capacity and communication service application, (iii) design, development and sale of automation control systems for industrial uses and (iv) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

The Group has commenced the upgrade for Synertone 1 satellite's gateway system since November 2015. The upgrade will increase the total bandwidth of the Synertone 1 satellite system from 12Gbps to around 20Gbps as well as the uplink and downlink transmission limits. The Synertone 1 satellite system is capable of providing customers with high throughput satellite (HTS) resources over the PRC including the coastal areas. The Group's infrastructure can provide up to 200Mbps high-speed wireless broadband connectivity to high-speed rail, ferries and shipping, road transportation and aircraft, as well as wireless broadband connectivity in remote areas with no electricity.

Due to the change of market conditions, in particular, the launch of China's own high-throughput satellite in April 2017, the management of the Group is also discussing with the grantor of the exclusive right that Vastsuccess Holdings Limited (a wholly-owned subsidiary of the Company) is using to provide the Synertone 1 satellite bandwidth capacity to service providers and end user customers in the PRC on a detailed plan as to how the parties shall perform the relevant service agreements in the future. As at the date of this report, no agreements have been reached with the grantor.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

In the meantime, the Group has developed series of network element products which provide customers with multi-channel network access such as satellite network, 3G/4G public network, trunking private network and Wi-Fi. Data transmission rate of these network element products will be over 150Mbps, which can support high quality voice, data, video, image, positioning and other multimedia applications. These network element products are easy to deploy and use that could meet communication service requirements in aviation, railway, maritime, emergency, field survey and oil exploration, etc. The first phase of development has been completed and the new products have been put into commercial trial cases.

The Group expects that the upgraded Synertone 1 satellite system and network element products can be launched to the market later the financial year ending 31 March 2018.

In respect of the intelligent building system business carried out by the Sense Field Group in the mainland China, our "MOX" brand video intercom and surveillance system products faced fierce competition during the period. Some property developers adopted low end products from other local manufacturers with lower selling price instead and therefore placed less orders from the Group. In order to consolidate its market share, the Group has been expanding the sales network into regions other than the Yangtze River Delta.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW

Turnover

The Group recorded a revenue of approximately HK\$40.8 million for the six months ended 30 September 2017, representing a decrease of approximately HK\$9.3 million or 18.6% as compared to approximately HK\$50.1 million for the six months ended 30 September 2016.

During the period under review, the Group derived its revenue substantially from industrial control system and building intelligence and smart home businesses. On the other hand, the Group was carrying out the upgrade of the Synertone 1 satellite system and as a result revenue from provision of satellite communication service remained relatively low. The following table sets forth a breakdown of revenue by product category for the periods presented:

	Six months ended 30 September			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Specialised communication systems and technologies	2,497	6.1	1,790	3.6
Synertone 1 satellite system	8,065	19.8	2,121	4.2
Building intelligence and smart home	20,123	49.4	36,530	72.9
Industrial control system	10,087	24.7	9,661	19.3
	40,772	100.0	50,102	100.0

The decrease in the Group's revenue for the six months ended 30 September 2017 was mainly attributable to the decrease in sales generated by the building intelligence and smart home business of approximately HK\$16.4 million or 44.9% as compared to the corresponding period in preceding year as explained above.

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 increased by approximately HK\$0.9 million or 1.9% from approximately HK\$48.3 million for the six months ended 30 September 2016 to approximately HK\$49.2 million for the six months ended 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Gross (loss)/profit

The Group's gross loss for the six months ended 30 September 2017 was approximately HK\$8.4 million, as compared with gross profit of approximately HK\$1.8 million for the six months ended 30 September 2016. Gross loss was recorded was due to the decrease in gross profit contributed by the building intelligence and smart home business in line with the decrease in its contribution to the Group's revenue.

Other income

Other income of the Group amounted to approximately HK\$6.7 million for the six months ended 30 September 2017, representing a decrease of approximately HK\$14.7 million or 68.7% from approximately HK\$21.4 million for the six months ended 30 September 2016. The decrease was mainly due to the government grants received by the Group and recovery of bad debts written off in prior year were non-recurring in nature.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately HK\$0.6 million or 7.9% from approximately HK\$7.6 million for the six months ended 30 September 2016 to approximately HK\$8.2 million for the six months ended 30 September 2017.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK\$9.4 million or 20.1% from approximately HK\$46.7 million for the six months ended 30 September 2016 to approximately HK\$37.3 million for the six months ended 30 September 2017, mainly attributable to reduced staff costs, legal and professional fees, and travel expenses as a result of stringent cost control measures.

Research and development expenditure

The research and development expenditure of the Group reduced by approximately HK\$2.1 million or 13.5% from approximately HK\$15.6 million for the six months ended 30 September 2016 to approximately HK\$13.5 million for the six months ended 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Impairment loss of trade receivables

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

As at 30 September 2017, trade receivables amounting to approximately HK\$84.4 million (31 March 2017: HK\$71.2 million) were individually determined to be impaired which were outstanding beyond its credit period and without any repayment subsequent to the end of the reporting period. Impairment loss of approximately HK\$12.5 million (six months ended 30 September 2016: Nil) was recognised in profit or loss for the six months ended 30 September 2017. The Group also recovered impaired trade receivables of approximately HK\$2.8 million (six months ended 30 September 2016: Nil) which was recognised as other income in profit or loss for the six months ended 30 September 2017. The Directors will take further possible actions to follow up those impaired receivables.

Impairment loss of goodwill

During the six months ended 30 September 2017, goodwill attributable to industrial control system cash generating unit amounting to approximately HK\$1.8 million were 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 the temporary suspension of Synertone 1 satellite system reduced the anticipated cash flows from the future operating synergies through the combination of the automation control system with the support of Synertone 1 satellite system.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Finance costs

The finance costs of the Group was approximately HK\$14.2 million for the six months ended 30 September 2017, comprising interest on bank and other borrowings of approximately HK\$4.4 million, finance charges of approximately HK\$9.2 million on finance lease payables, and effective interest on convertible bonds of approximately HK\$0.6 million that were issued during the current period.

Income tax

The tax credit of the Group decreased by approximately HK\$5.7 million or 75.0% from approximately HK\$7.6 million for the six months ended 30 September 2016 to approximately HK\$1.9 million for the six months ended 30 September 2017, and was mainly attributable to decrease in deferred tax credit arising from reversal of dividend withholding tax payable.

Loss for the period

Given the foregoing factors, the Group recorded the loss attributable to owners of the Company of approximately HK\$84.4 million for the six months ended 30 September 2017, while the loss attributable to owners of the Company for the corresponding period in preceding year was approximately HK\$81.8 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.

On 23 May 2017, the Company and the Subscriber entered into a subscription agreement (the “**Subscription Agreement**”), pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, convertible bonds in the principal amount of HK\$48,000,000 in tranches (the “**Convertible Bonds**”) in accordance with the written demands by the Company to be made within twelve months immediately after the completion of the Subscription Agreement which took place on 6 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

The initial conversion price of the Convertible Bonds is HK\$0.16 per conversion share (subject to adjustments), and a maximum of 300,000,000 conversion shares will be allotted and issued upon the exercise in full of the conversion rights attaching to the Convertible Bonds based on the initial conversion price.

The net proceeds arising from the issue of the Convertible Bonds, after deduction of expenses, will amount to approximately HK\$47,970,000, which shall be applied towards the Group's general working capital.

As at the date of this report, the Company has issued Convertible Bonds in an aggregate principal amount of HK\$20,000,000 upon receipt of subscription money from the Subscriber after written demands made by the Company. For further details of the issue of Convertible Bonds, please refer to the Company's announcements dated 23 May 2017, 6 June 2017, 13 June 2017 and 2 August 2017.

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 six months ended 30 September 2017, the warrants were not yet exercised.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 30 September 2017 was approximately 0.7 (31 March 2017: approximately 0.9). Gearing ratio calculated by total borrowings (comprising bank and other borrowings, finance lease payables and liability component of convertible bonds) net of cash and cash equivalents, over total equity as at 30 September 2017 was 261% (31 March 2017: 197%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The following table summarises the cash flows of the Group for the six months ended 30 September 2017 together with the comparative figures for the six months ended 30 September 2016:

	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
Net cash used in operating activities	(566)	(41,550)
Net cash used in investing activities	(4,422)	(51,743)
Net cash (used in) from financing activities	(6,404)	120,666

Operating activities

Net cash used in operating activities amounted to approximately HK\$0.6 million for the six months ended 30 September 2017, which was decreased by approximately HK\$41.0 million or 98.5% as compared with that for the corresponding period in last year. The decrease in net cash used in operating activities was mainly attributable to the decrease in operating expenses and the positive movement of net working capital during the current period.

Investing activities

Net cash used in investing activities amounted to approximately HK\$4.4 million for the six months ended 30 September 2017, which was decreased by approximately HK\$47.3 million or 91.5% as compared with that for the corresponding period in last year. The decrease was attributable to less capital expenditure incurred for upgrade of Synertone 1 satellite system.

Financing activities

Net cash used in financing activities amounted to approximately HK\$6.4 million for the six months ended 30 September 2017, which were mainly attributable to the repayment of bank and other borrowings and finance lease payables and partly offset by the proceeds from issue of Convertible Bonds. In contrast, net cash generated from financing activities amounted to approximately HK\$120.7 million for the six months ended 30 September 2016, which were due to new share capital raised from rights issue, partly offset by the consideration paid to the then non-controlling shareholders of Sense Field for the further acquisition of 36% equity interest in Sense Field.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Bank and other borrowings

As at 30 September 2017, the Group had outstanding bank and other borrowings of approximately HK\$158.8 million (31 March 2017: HK\$165.2 million).

Pledge of assets

As at 30 September 2017, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK\$54.1 million (31 March 2017: HK\$53.7 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent liabilities

As at 30 September 2017, the Group had no material contingent liabilities.

Profit guarantee arising from acquisition of Sense Field

On 29 June 2016, the Group entered into the Further Acquisition Agreement 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 has been approved by the Shareholders at an extraordinary general meeting held on 16 January 2017 and completed on 30 March 2017.

Pursuant to the Further Acquisition Agreement, consideration of HK\$117 million has been paid in cash to the Vendors during the year ended 31 March 2017. The 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 EBITDA of the Sense Field Group for the year ended 31 December 2016 is not less than HK\$40 million. Such amount has not been paid as the First-year Target was not met.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

- (a) the Retention Funds, when the aggregate EBITDA for the two years ending 31 December 2017 exceeds HK\$95 million; or
- (b) the difference between the Retention Funds and the shortfall, calculated by the Two-year Target minus the aggregate EBITDA for the two years ending 31 December 2017, when the Two-year Target cannot be met. If the Retention Funds is not sufficient to cover the Shortfall, the Group shall not be required to pay any amount to the Vendors and the Vendors shall indemnify the Group an amount equivalent to the difference between the Retention Funds and the Shortfall.

No provision for the above profit guarantee arrangement is recognised at the end of the reporting period as the Directors considered that taking into account the unaudited consolidated management accounts for the nine months ended 30 September 2017 and the profit forecast for the three months ending 31 December 2017 prepared by management of the Sense Field Group, the Two-year Target is unlikely to be met and the probability that the Retention Funds being sufficient to cover the Shortfall is remote.

Significant capital expenditure for the year

Save as disclosed above, the Group has no significant capital expenditure commitments as at 30 September 2017.

Risk of Foreign Exchange Fluctuations

Substantially all transactions of the Group are denominated in RMB, United States dollars and Hong Kong dollars and most of the bank deposits are in RMB and Hong Kong dollars to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against United State dollars and Hong Kong dollars during the period, 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 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 September 2017, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

EMPLOYEE AND REMUNERATION POLICY

As at 30 September 2017, the Group had 291 employees (31 March 2017: 449). For the six months ended 30 September 2017, the staff costs of the Group amounted to approximately HK\$23.0 million, representing a decrease of approximately HK\$3.7 million or 13.9% as compared to HK\$26.7 million for the corresponding period last year, mainly due to the decrease in headcount attributable to the specialised communication system and intelligent building system businesses.

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 30 September 2017, the Company had 52,607,678 share options outstanding under the share option scheme.

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

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (six months ended 30 September 2016: nil).

OTHER INFORMATION

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

As at 30 September 2017, the interests and short positions of the Directors and chief executive of the Company in any of the Company's Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Chapter 571, Laws of Hong Kong ("**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 ("**Model Code**") contained in Appendix 10 to the Listing Rules were as follows:

(A) 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)	35.68%
Mr. Han Weining	Beneficial owner	40,800,000	1.22%

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.

OTHER INFORMATION *(Continued)***(B) Long Positions in Share Options**

Name of Directors	Date of grant	Exercise price (HK\$)	Exercisable period	Outstanding as at 30.09.2017
Mr. Wong Chit On	24.12.2013	2.060	24.12.2015 – 23.12.2018	1,456,604
Mr. Han Weining	24.12.2013	2.060	24.12.2015 – 23.12.2018	1,456,604
Mr. Lam Ying Hung Andy	24.12.2013	2.060	24.12.2015 – 23.12.2018	1,456,604

Save as disclosed above, as at 30 September 2017, 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

Save as disclosed in the sections headed "Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations" and "Share Option Scheme" of this interim report, at no time during the period under review 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.

OTHER INFORMATION *(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 30 September 2017, 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 <i>(Note 1)</i>
Excel Time	Beneficial owner	1,194,710,296 <i>(Note 2)</i>	35.68%
CITIC Capital Management Limited	Beneficial owner	196,666,667 <i>(Note 3)</i>	5.87%
Baoshan International Group Limited	Beneficial owner	300,000,000 <i>(Note 4)</i>	8.96%
Wang Jian	Interest of a Controlled corporation	300,000,000 <i>(Note 5)</i>	8.96%
	Beneficial Owner	17,520,000	0.52%

OTHER INFORMATION *(Continued)*

Notes:

1. Based on 3,348,800,000 Shares in issue as at 30 September 2017.
2. Excel Time is wholly owned by Mr. Wong Chit On, the chairman of the Company and an executive Director whose interest in Shares or underlying shares of the Company 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. On 22 September 2014, 660,000,000 warrants of the Company were granted to CITIC Capital Management Limited, entitling the holder thereof to subscribe for 660,000,000 shares of HK\$0.01 each in the share capital of the Company (restated to 196,666,667 Shares following the share consolidation effective on 24 March 2016 and the completion of the rights issue on 28 April 2016).
4. Based on the notice of disclosure of interest of Baoshan International Group Limited ("**Baoshan International**") and Mr. Wang Jian each filed with the Stock Exchange on 26 May 2017, these 300,000,000 underlying Shares held by Baoshan International, which is wholly-owned by Mr. Wang Jian. Under Part XV of the SFO, Mr. Wang Jian is interested in these 300,000,000 underlying Shares in which Baoshan International is interested. As at 30 September 2017, the Company has issued convertible bonds in the principal amount of HK\$20,000,000 to Baoshan International pursuant to the terms and conditions of the subscription agreement dated 23 May 2017 entered into between the Company and Baoshan International for the subscription of convertible bonds in the principal amount of HK\$48,000,000 which is convertible into a maximum of 300,000,000 Shares upon full conversion at the conversion price of HK\$0.16 each. Please refer to the Company's announcements dated 23 May 2017, 6 June 2017, 13 June 2017 and 2 August 2017 for details of the subscription of the aforesaid convertible bonds.
5. These 300,000,000 underlying Shares are beneficially held by Baoshan International. Baoshan International is wholly and beneficially owned by Mr. Wang Jian. By virtue of the SFO, Mr. Wang Jian is deemed to be interested in these 300,000,000 underlying Shares.

Save as disclosed above, as at 30 September 2017, 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 that were recorded in the register kept by the Company under Section 336 of the SFO.

OTHER INFORMATION *(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.

OTHER INFORMATION *(Continued)*

Details of the movement in the share options granted under the Share Option Scheme during the period under review are as follows:

Category of participants	Date of grant of share option	Exercise Period (Note)	Exercise price (HK\$)	Outstanding as at 01.04.2017	Granted during the period under review	Exercised/ cancelled during the period under review	Lapsed during the period under review	Outstanding as at 30.09.2017
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	25,466,292	-	-	(6,360,502)	19,105,790
Other Participants								
In aggregate	24.12.2013	24.12.2015 – 23.12.2018	2.060	29,132,076	-	-	-	29,132,076
Total				58,968,180	-	-	(6,360,502)	52,607,678

Note:

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.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 September 2017.

OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE PRACTICES

The Directors consider that throughout the six months ended 30 September 2017, the Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 to the Listing Rules, except for the following deviation:

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting.

Mr. Wong Chit On, the Chairman of the Board, was not able to attend the annual general meeting of the Company held on 6 September 2017 (the “**2017 AGM**”) due to another important business meeting. Mr. Han Weining (executive Director and chief executive officer of the Company) was appointed as the chairman of the 2017 AGM to answer and address questions raised by the Shareholders at the 2017 AGM.

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 six months ended 30 September 2017.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference and revised from time to time to comply with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lam Ying Hung Andy (as chairman), Mr. Wang Chen and Ms. Li Mingqi. The principal duties of the Audit Committee include the overview of the Company’s financial reporting system, risk management and internal control systems and financial information of the Group. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2017 have been reviewed by the Audit Committee.

OTHER INFORMATION *(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 report, the Company has maintained sufficient public float as required under the Listing Rules during the six months ended 30 September 2017 and up to the date of this report.

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

Hong Kong, 29 November 2017

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