SYNERTONE

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1613

INTERIM REPORT 2018

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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

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HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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 2018

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 2018, together with the comparative figures for the corresponding period in 2017, as follows:

		For the six months ended 30 September	
		2018	2017
	NOTES	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)
Revenue	*4*	**38,540**	40,772
Cost of sales		**(23,865)**	(49,185)
Gross profit (loss)		**14,675**	(8,413)
Other income	*5*	**9,684**	6,674
Other gains and losses	*5*	**(15,215)**	1,422
Selling and distribution expenses		**(5,100)**	(8,150)
Administrative and other operating expenses		**(34,255)**	(37,252)
Research and development expenditure		**(10,944)**	(13,518)
Impairment loss of trade receivables		**(1,193)**	(12,502)
Impairment loss of goodwill		**(1,500)**	(1,805)
Loss from operations		**(43,848)**	(73,544)
Finance costs	*6(a)*	**(15,134)**	(14,190)
Share of results of an associate		**–**	(985)
Loss before taxation	*6*	**(58,982)**	(88,719)
Income tax credit	*7*	**1,249**	1,856
Loss for the period		**(57,733)**	(86,863)

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

For the six months ended 30 September 2018

	NOTES	For the six months ended 30 September 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Attributable to:			
Owners of the Company		**(57,168)**	(84,403)
Non-controlling interests		**(565)**	(2,460)
		(57,733)	(86,863)
		HK cents	HK cents
Loss per share	*9*		
– Basic		**(1.45)**	(2.52)
– Diluted		**(1.45)**	(2.52)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	For the six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period	**(57,733)**	(86,863)
Other comprehensive (loss) income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	**(4,358)**	20,991
Total comprehensive loss for the period	**(62,091)**	(65,872)
Attributable to:		
Owners of the Company	**(60,563)**	(64,149)
Non-controlling interests	**(1,528)**	(1,723)
	(62,091)	(65,872)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	NOTES	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*10*	**85,638**	99,867
Prepaid lease payments		**8,186**	9,098
Intangible assets	*11*	**18,504**	25,131
Goodwill	*12*	**62,453**	70,234
Interest in an associate		**1,247**	1,370
Available-for-sale investments		**–**	3,900
Financial assets at fair value through other comprehensive income		**3,900**	–
Prepayment for acquisition of property, plant and equipment	*13*	**8,110**	8,141
		188,038	217,741
Current assets			
Inventories		**46,465**	48,518
Trade and other receivables	*13*	**194,377**	285,739
Prepaid lease payments		**196**	215
Cash and cash equivalents		**40,312**	6,877
		281,350	341,349
Current liabilities			
Trade and other payables	*14*	**84,387**	100,851
Bank and other borrowings	*15*	**82,505**	171,655
Finance lease payables	*16*	**258,249**	190,112
Amount due to a director	*21(a)*	**1**	1
Current taxation		**1,566**	1,720
		426,708	464,339

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 September 2018

	NOTES	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Net current liabilities		**(145,358)**	(122,990)
Total assets less current liabilities		**42,680**	94,751
Non-current liabilities			
Finance lease payables	*16*	**162,341**	223,419
Convertible bonds payable	*17*	**–**	18,467
Deferred tax liabilities		**5,417**	7,234
		167,758	249,120
Net liabilities		**(125,078)**	(154,369)
Capital and reserves			
Share capital	*18*	**215,091**	167,440
Reserves		**(349,699)**	(333,530)
Equity attributable to owners of the Company		**(134,608)**	(166,090)
Non-controlling interests		**9,530**	11,721
Total equity		**(125,078)**	(154,369)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Attributable to owners of the Company											Non-controlling interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrant reserve HK$'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$'000	HK$'000	HK$'000
At 1 April 2017 (Audited)	167,440	745,507	12,740	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)	(2,460)	(86,863)
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	3,481	(90)	40,737	(82,057)	(8,062)	(679,261)	206,213	12,837	219,050
At 1 April 2018 (Audited)	**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 *(Note 2)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,700)**	**(7,700)**	**(663)**	**(8,363)**
At 1 April 2018 (Adjusted)	**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)**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(57,168)**	**(57,168)**	**(565)**	**(57,733)**
Other comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,395)**	**–**	**(3,395)**	**(963)**	**(4,358)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,395)**	**(57,168)**	**(60,563)**	**(1,528)**	**(62,091)**
Lapse of share options	**–**	**–**	**(152)**	**–**	**–**	**–**	**–**	**–**	**–**	**152**	**–**	**–**	**–**
Issue of new shares *(Note 18)*	**32,651**	**19,590**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**52,241**	**–**	**52,241**
Share issuance costs	**–**	**(48)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(48)**	**–**	**(48)**
Issue of convertible bonds *(Note 17)*	**–**	**–**	**–**	**–**	**5,568**	**–**	**–**	**–**	**–**	**–**	**5,568**	**–**	**5,568**
Issue of new shares upon conversion of convertible bonds *(Note 17)*	**15,000**	**36,033**	**–**	**–**	**(9,049)**	**–**	**–**	**–**	**–**	**–**	**41,984**	**–**	**41,984**
At 30 September 2018 (Unaudited)	**215,091**	**801,082**	**10,320**	**6,600**	**–**	**(90)**	**40,737**	**(9,996)**	**4,625**	**(1,202,977)**	**(134,608)**	**9,530**	**(125,078)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	For the six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	**5,987**	(566)
Investing activities		
Additions of property, plant and equipment	**(962)**	(5,361)
Interest received	**501**	508
Loans to independent third parties	**(50,000)**	–
Repayment of loan to an independent third party	**20,000**	–
Other investing cash flows	**292**	431
Net cash used in investing activities	**(30,169)**	(4,422)
Financing activities		
Proceeds from bank and other borrowings	**51,309**	41,995
Repayment of bank and other borrowings	**(132,396)**	(52,125)
Repayment of finance lease payables	**(598)**	(14,189)
Proceeds from issue of convertible bonds	**28,000**	20,000
Interest paid	**(11,690)**	(3,332)
Proceeds from non-controlling shareholders of a subsidiary in respect of profit guarantee adjustment	**72,061**	–
Proceeds from issue of new shares	**52,241**	–
Other financing cash flows	**(48)**	–
Net cash from (used in) financing activities	**58,879**	(6,404)
Net increase (decrease) in cash and cash equivalents	**34,697**	(11,392)
Cash and cash equivalents at beginning of the period	**6,877**	17,991
Effect of foreign exchange rates changes	**(1,262)**	510
Cash and cash equivalents at end of the period, representing bank balances and cash	**40,312**	7,109

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 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 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.

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 Group incurred a loss attributable to owners of the Company of HK$57,168,000 during the six months ended 30 September 2018, and, as of that date, the Group's liabilities exceeded its assets by HK$125,078,000. The existence of these uncertainties cast significant doubt on the Group's ability to continue as going concern. 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.

As detailed in note 22, the Company and Vastsuccess Holdings Limited ("**Vastsuccess**"), a wholly-owned subsidiary of the Company, have entered into agreements with IPSTAR Company Limited (the "**Vendor**") in October 2018 for the settlement of claims arising from the early termination of the Group's exclusive right to use Synertone 1 satellite bandwidth resources. The Group has also entered into share transfer agreement with an independent third party in November 2018 to dispose of the entire issued share capital of Vastsuccess. As a result, the Group was not in the position to pay the finance lease payables amounting to HK$418,538,000 as at 30 September 2018 in respect of the outstanding bandwidth resources fee payable to the Vendor, comprising HK$257,040,000 recorded under current liabilities and HK$161,498,000 recorded under non-current liabilities.

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.

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

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies used in the condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2018 for the preparation of the Group's condensed consolidated financial statements. Except as described below, the application of the new and amendments to HKFRSs has had no material effect on the amounts reported in these condensed consolidated financial statements.

HKFRS 9 Financial instruments

In the current interim period, 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.

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

HKFRS 9 Financial instruments *(Continued)*

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

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

Classification and measurement of financial assets

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

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

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

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

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

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

HKFRS 9 Financial instruments *(Continued)*

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

Classification and measurement of financial assets (Continued)

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

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

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

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

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

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

HKFRS 9 Financial instruments *(Continued)*

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

Classification and measurement of financial assets (Continued)

Equity instruments designated as at FVTOCI

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

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

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

Financial assets at FVTPL

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

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

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

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

HKFRS 9 Financial instruments *(Continued)*

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

Impairment under ECL model

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

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

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

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

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

HKFRS 9 Financial instruments *(Continued)*

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

Impairment under ECL model (Continued)

Significant increase in credit risk

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

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

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

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

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

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

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

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

HKFRS 9 Financial instruments *(Continued)*

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

Impairment under ECL model (Continued)

Significant increase in credit risk *(Continued)*

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

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

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

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

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

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

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

HKFRS 9 Financial instruments *(Continued)*

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

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

	Available-for-sale investments HK$'000	Financial assets at FVTOCI HK$'000	Trade receivables HK$'000	Accumulated losses HK$'000	Non-controlling interests HK$'000
Carrying amount previously reported under 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 (Unaudited)	–	3,900	97,819	(1,145,961)	11,058

Notes:

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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

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

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

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

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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

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

The following adjustment was made to the amount recognised in note to the condensed 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 condensed consolidated financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(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 condensed 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 (Unaudited)
Non-current assets				
Available-for-sale investments	3,900	(3,900)	–	–
Financial assets at FVTOCI	–	3,900	–	3,900
Current assets				
Trade and other receivables	285,739	(8,363)	–	277,376
Equity				
Accumulated losses	(1,138,261)	(7,700)	–	(1,145,961)
Non-controlling interests	11,721	(663)	–	11,058

3. SEGMENT REPORTING

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

Communication Technology:	Provision of specialized 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.

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 financial assets at FVTOCI 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 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 goodwill, share of results of an associate and items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses.

3. SEGMENT REPORTING *(Continued)*

Segment revenue and results

	For the six months ended 30 September 2018				
	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)	Total HK$'000 (Unaudited)
Revenue from external customers	1,767	–	24,284	18,469	44,520
Inter-segment revenue	(26)	–	(5,954)	–	(5,980)
Reportable segment revenue	1,741	–	18,330	18,469	38,540
Reportable segment loss (Adjusted EBIT)	(10,674)	(16,580)	(2,314)	(1,352)	(30,920)
Impairment loss of goodwill					(1,500)
Interest income					502
Finance costs					(15,134)
Unallocated corporate expenses					(11,930)
Consolidated loss before taxation					(58,982)

3. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

	For the six months ended 30 September 2017				
	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)	Total HK$'000 (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)

3. SEGMENT REPORTING *(Continued)*

Segment assets and liabilities

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Assets		
Communication technology	**85,355**	128,235
Synertone 1 satellite communication	**58,680**	66,913
Building intelligence and smart home	**193,043**	161,209
Industrial control system	**98,199**	100,224
Segment assets before elimination of inter-segment balances	**435,277**	456,581
Elimination of inter-segment balances	**(45,099)**	–
Financial assets at FVTOCI	**3,900**	–
Available-for-sale investments	**–**	3,900
Unallocated corporate assets	**75,310**	98,609
Consolidated total assets	**469,388**	559,090
Liabilities		
Communication technology	**5,441**	19,574
Synertone 1 satellite communication	**425,211**	421,413
Building intelligence and smart home	**122,667**	139,238
Industrial control system	**76,301**	11,529
Segment liabilities before elimination of inter-segment balances	**629,620**	591,754
Elimination of inter-segment balances	**(45,099)**	–
Amount due to a director	**1**	1
Convertible bonds payable	**–**	18,467
Deferred tax liabilities	**5,417**	7,234
Unallocated corporate liabilities	**4,527**	96,003
Consolidated total liabilities	**594,466**	713,459

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	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Specialised communication systems and technologies	**1,741**	2,497
Synertone 1 satellite system	**–**	8,065
Building intelligence and smart home	**18,330**	20,123
Industrial control system	**18,469**	10,087
	38,540	40,772

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Other income		
Interest income on bank deposits	**66**	7
Interest income on loan receivable	**436**	501
Government grants *(note a)*	**1,414**	428
Value-added taxes refund *(note b)*	**1,307**	1,507
Recovery of impaired trade receivables	**4,133**	2,755
Sundry income	**2,328**	1,476
	9,684	6,674
Other gains and losses		
Net exchange (loss) gain	**(15,374)**	1,028
Net gain on disposal of property, plant and equipment	**159**	394
	(15,215)	1,422
	(5,531)	8,096

Notes:

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

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

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	For the six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest expense on bank and other borrowings	**4,796**	4,415
Interest expense on convertible bonds payable	**1,085**	645
Finance charges on finance lease payables	**9,253**	9,130
	15,134	14,190

(b) Other items

	For the six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expense	**22,030**	23,077
Amortisation of intangible assets	**4,585**	27,437
Depreciation of property, plant and equipment	**6,631**	5,597
Allowance for inventories	**970**	662

7. INCOME TAX CREDIT

	For the six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("**EIT**") *(note d)*	**8**	199
Deferred tax		
Origination and reversal of temporary differences	**(1,257)**	(2,055)
	(1,249)	(1,856)

Notes:

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

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

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

(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% (2017: 25%).

7. INCOME TAX CREDIT *(Continued)*

Notes: (Continued)

(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 2018, no dividend has been paid or proposed by the Company, nor has any dividend been proposed since the end of the reporting period (six months ended 30 September 2017: Nil).

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$57,168,000 (six months ended 30 September 2017: HK$84,403,000) and the weighted average number of 3,941,910,000 ordinary shares (six months ended 30 September 2017: 3,348,800,000 ordinary shares) in issue during the period.

9. LOSS PER SHARE *(Continued)*

(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	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company for the purpose of diluted loss per share	**(57,168)**	(84,403)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,941,910**	3,348,800
Adjustment for warrants	**–**	–
Adjustment for share options	**–**	–
Adjustment for convertible bonds	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,941,910**	3,348,800

9. LOSS PER SHARE *(Continued)*

(b) Diluted loss per share *(Continued)*

For the six months ended 30 September 2018 and 2017, 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 2018 and 2017, the computation of diluted loss per share did not assume the conversion of the Company's outstanding convertible bonds (at beginning of the interim period or date of issue where applicable) as the conversion of convertible bonds to ordinary shares would have anti-dilutive effect.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group spent HK$962,000 on additions to property, plant and equipment (Six months ended 30 September 2017: HK$5,361,000).

11. INTANGIBLE ASSETS

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Technical know-how for digital trunking system *(note a)*	**–**	–
Technical know-how for VSAT satellite system *(note a)*	**–**	–
Administrative system costs	**54**	73
Right to use Synertone 1 satellite bandwidth *(note b)*	**–**	–
Safe communication technology software *(note c)*	**–**	–
Patents and software *(note d)*	**10,980**	14,900
Trademark *(note d)*	**1,659**	2,243
Customer relationship *(note e)*	**5,811**	7,915
	18,504	25,131

Notes:

(a) 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 specialised communication systems. The assets have been fully amortised at the end of each reporting period.

(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. As detailed in note 22, it has been mutually agreed between the Group and the Vendor in October 2018 that the right to use granted under the relevant agreements had been terminated, and therefore full impairment of the asset has been recognised at the end of each reporting period.

(c) It represents the technologies in relation to the provision of a safe communication environment for end users. Full impairment of the asset has been recognised at the end of each reporting period.

11. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(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.

12. GOODWILL

The carrying amount of goodwill as at 30 September 2018 has been allocated to three individual cash generating units as follows:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Provision of safe communication technologies	**–**	–
Building intelligence and smart home	**–**	–
Industrial control system	**62,453**	70,234
	62,453	70,234

During the six months ended 30 September 2018, the Group recognised impairment loss of HK$1,500,000 (six months ended 30 September 2017: HK$1,805,000) 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.

13. TRADE AND OTHER RECEIVABLES

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Trade receivables *(notes a, b)*	**173,669**	196,416
Less: Allowance for doubtful debts	**(87,062)**	(90,234)
	86,607	106,182
Bills receivable	**303**	1,324
Loan receivables	**50,000**	20,000
Other receivables	**17,859**	46,806
Due from non-controlling shareholders of a subsidiary *(note c)*	**–**	72,061
Advances to suppliers	**19,158**	21,648
Prepaid value-added and other taxes	**8,716**	8,141
Prepayments for acquisition of property, plant and equipment	**8,110**	8,141
Other prepayments and deposits	**11,734**	9,577
	202,487	293,880
Analysed for reporting purposes as:		
Non-current assets	**8,110**	8,141
Current assets	**194,377**	285,739
	202,487	293,880

13. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

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

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

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
0 – 60 days	**35,780**	29,574
61 – 90 days	**1,679**	3,162
91 – 180 days	**4,217**	8,210
181 – 365 days	**11,553**	10,539
Over 365 days	**120,440**	144,931
	173,669	196,416
Less: Allowance for doubtful debts	**(87,062)**	(90,234)
	86,607	106,182

(c) The amount represents receivable from the non-controlling shareholders of Sense Field Group Limited ("**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 six months ended 30 September 2018, the amount was fully settled.

14. TRADE AND OTHER PAYABLES

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Trade payables	**19,155**	37,505
Bill payables	**5,909**	6,365
Accrued salaries	**3,442**	8,147
Accrued expenses and other payables	**49,636**	37,875
Financial liabilities measured at amortised cost	**78,142**	89,892
Deferred government grant	**2,273**	2,496
Contract liabilities *(note)*	**3,581**	–
Deposits received from customers	**–**	7,331
Other tax payables	**391**	1,132
	84,387	100,851

Note: Deposits received from customers were reclassified as contract liabilities upon the initial application of HKFRS 15 (see Note 2).

14. TRADE AND OTHER PAYABLES *(Continued)*

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

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
0 – 60 days	**3,422**	14,229
61 – 90 days	**1,694**	948
91 – 180 days	**911**	1,610
181 – 365 days	**2,201**	5,073
Over 365 days	**10,927**	15,645
	19,155	37,505

15. BANK AND OTHER BORROWINGS

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Bank borrowings		
– secured	**39,775**	43,682
– unsecured	**42,730**	46,053
Unsecured other borrowings	**–**	81,920
	82,505	171,655

15. BANK AND OTHER BORROWINGS *(Continued)*

As at 30 September 2018 and 31 March 2018, 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 2018, none of the covenants relating to drawn down facilities had been breached (31 March 2018: 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 5.22%–6.50% per annum for the period ended 30 September 2018 (31 March 2018: 5.22%–6.50% per annum).

16. FINANCE LEASE PAYABLES

The Group's finance leases arise from the acquisition of the right 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 2018: 2% to 4.5%) per annum.

16. FINANCE LEASE PAYABLES *(Continued)*

As at 30 September 2018, the Group had obligation under finance leases repayable as follows:

	30 September 2018		31 March 2018	
	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	**258,249**	**261,178**	190,112	191,549
After 1 year but within 2 years	**65,407**	**71,256**	67,363	71,826
After 2 years but within 5 years	**96,934**	**117,266**	156,056	188,648
	162,341	**188,522**	223,419	260,474
	420,590	**449,700**	413,531	452,023
Less: Total future interest expenses		**(29,110)**		(38,492)
Present value of lease obligations		**420,590**		413,531

17. 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 current interim period, the Company had issued the convertible bonds in an aggregate principal amount of HK$28,000,000 (six months ended 30 September 2017: 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 six months ended 30 September 2018, the Subscriber exercised the Conversion Right to convert all outstanding convertible bonds into 300,000,000 ordinary shares of the Company at the Conversion Price of HK$0.16 per share.

17. CONVERTIBLE BONDS PAYABLE *(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	18,467	3,481	21,948
Issued during the period	22,432	5,568	28,000
Effective interest charged to profit or loss	1,085	–	1,085
Conversion into shares	(41,984)	(9,049)	(51,033)
At end of the period	–	–	–

The liability component of the convertible bonds is carried at amortised cost with the effective interest rates of 15.8%-17.9% per annum (31 March 2018: 15.8% per annum).

18. SHARE CAPITAL

	30 September 2018		31 March 2018	
	Number of shares '000	**Amount HK$'000 (Unaudited)**	Number of shares '000	Amount HK$'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**	3,348,800	167,440
Issue of shares *(note)*	**653,016**	**32,651**	–	–
Issue of shares upon conversion of convertible bonds *(Note 17)*	**300,000**	**15,000**	–	–
At end of the period/year	**4,301,816**	**215,091**	3,348,800	167,440

Note: During the six months ended 30 September 2018, the Company issued 653,016,000 new shares under general mandate to an independent third party at the subscription price of HK$0.80 per share. The net proceeds amounting to HK$52,193,000 will be applied as general working capital and for future investment opportunities.

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period on a recurring basis. The following table gives information about the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management and the audit committee. Discussions of valuation processes and results are held between the management, the audit committee and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

	30 September 2018			
	Level 1 HK$'000 (Unaudited)	**Level 2** HK$'000 (Unaudited)	**Level 3** HK$'000 (Unaudited)	**Total** HK$'000 (Unaudited)
Financial assets at FVTOCI				
Unlisted equity investment *(note)*	–	–	3,900	3,900

Note: Available-for-sale investments were reclassified to financial assets designated at FVTOCI upon the adoption of HKFRS 9 at 1 April 2018 (see Note 2).

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during both periods.

The fair value of the unlisted equity investment was estimated by the method of comparables which evaluates the market value of the unlisted equity investment by using price to book ratio of listed entities in similar industries. The main Level 3 inputs used by the Group in estimating the unlisted equity investment are (a) book value of share of net assets of investee based on financial statements of investee; and (b) discount for lack of marketability of 30 percent determined by reference to recent market research.

There were no movements in the balance of Level 3 fair value measurements during the current interim period.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

20. COMMITMENTS

(a) As at 30 September 2018, the Group had the following capital commitments:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Contracted but not provided for in the condensed consolidated financial statements:		
– Acquisition of plant and equipment	**58,344**	58,647
– Renovation of office	**1,634**	1,794
	59,978	60,441

(b) As at 30 September 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Within one year	**5,134**	7,066
In the second to fifth year inclusive	**8,069**	10,796
	13,203	17,862

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.

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 2018 HK$'000 (Unaudited)	31 March 2018 HK$'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	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Salaries and other short term benefits	**3,977**	4,072
Equity-settled share based payments	**–**	122
Post-employment benefits	**65**	56
	4,042	4,250

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

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 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Finance lease payables guaranteed by a Director	**2,008**	2,596

22. EVENTS AFTER THE REPORTING PERIOD

In October 2018, (i) the Company and Vastsuccess entered into the settlement agreement (the "**Settlement Agreement**") with the Vendor; and (ii) Vastsuccess entered into the transfer agreement (the "**Transfer Agreement**") with the Vendor, pursuant to which, among others:

(a) the relevant agreements in respect of the exclusive right to use Synertone 1 satellite bandwidth resources granted by the Vendor had been terminated as of December 2017.

(b) the Group shall settle the outstanding amount of United States Dollars ("**USD**") 6,277,419.54 (including the outstanding bandwidth resource fees payable for the fourth service year) (the "**Outstanding Amount**") due to the Vendor as follows: (i) USD5,000,000 out of the Outstanding Amount shall be settled by transfer of the ownership of the upgraded hub system installed at the gateway stations (the "**Transfer**") to the Vendor subject to adjustments; and (ii) the balance of the Outstanding Amount shall be paid in cash within 45 days after completion of the Transfer.

22. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(c) upon full settlement of the Outstanding Amount:

(i) the Company shall be released and discharged from its liabilities and obligations under the corporate guarantee previously given in favour of the Vendor for the performance obligations under the relevant agreements; and

(ii) the Group will be irrevocably and unconditionally discharged from all claims arising from the relevant agreements in relation to the exclusive right to use Synertone 1 satellite bandwidth resources.

Subsequent to the signing of the Settlement Agreement and the Transfer Agreement, the Group transferred the ownership of the upgraded hub system to the Vendor but has not paid any cash to the Vendor for settlement of the balance of the Outstanding Amount.

In November 2018, the Group entered into 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, an indirect wholly-owned subsidiary of the Company to the Transferee. The consideration for the Share Transfer is satisfied by the fulfilment by the Transferee of the payment obligations to the Vendor 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.

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) 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.

Synertone 1 satellite system business

During the period under review, the Company has been negotiating with the Vendor for an amicable resolution following the early termination of the relevant agreements in the preceding financial year that grant the Group the exclusive right to use Synertone 1 satellite bandwidth resources. As a result, no revenue was generated from the provision of satellite bandwidth resources for the six months ended 30 September 2018.

On 12 October 2018, the Group entered into the Settlement Agreement and the Transfer Agreement with the Vendor for the full and final settlement of all claims arising from the early termination of the Group's exclusive right to use Synertone 1 satellite bandwidth resources. Pursuant to the Settlement Agreement, the Company shall settle the Outstanding Amount due to the Vendor by the Transfer of upgraded hub system as well as the payment of cash (subject to adjustments). For further details, please refer to the Company's announcement dated 12 October 2018.

Subsequent to the signing of the Settlement Agreement and the Transfer Agreement, the Group transferred the ownership of the upgraded hub system to the Vendor but has not paid any cash to the Vendor for settlement of the balance of the Outstanding Amount. Following the execution of the aforesaid agreement, the Company and the Vendor immediately entered into discussions for a new cooperation model in respect of the provision of satellite bandwidth resources in China. However, the terms and conditions the Vendor wishes to stick to do not fundamentally change from the old model, and are far from our desired model for the bandwidth resources fee to be charged solely based on the bandwidth capacity actually utilised. In this regard, the Directors consider that it would be the best interests of the Group to cease or dispose of the business.

In November 2018, the Group entered into share transfer agreements with the Transferee to dispose of the entire issued share capital of each of Vastsuccess and Synertone Satellite Communication Limited, an indirect wholly-owned subsidiary of the Company, to the Transferee. The consideration for the Share Transfer is satisfied by the fulfilment by the Transferee of the payment obligations to the Vendor 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.

The Share Transfer would result in an estimated gain on disposal of subsidiaries that is substantially attributable to the estimated gain of approximately HK$369.7 million (for illustrative purpose and based on the Group's unaudited condensed consolidated financial statements as at 30 September 2018) arising from the discharge of relevant bandwidth resources fee to be realized upon full payment of the Outstanding Amount due to the Vendor. Upon completion of the Share Transfer, the Group will cease its operation of Synertone 1 satellite system business.

Future investment opportunities

On 16 July 2018, the Company, as purchaser, entered into a non-legally binding letter of intent ("**LOI I**") with a vendor, in relation to the possible acquisition in a controlling interest in 深圳市理想電子商務有限公司(Shenzhen Ideal e-Commerce Limited) ("**Shenzhen Ideal**"). Shenzhen Ideal is a financial technology company (Fintech), principally engaging in the provision of online lending platform in China to match prospective borrowers and lenders, with a credit assessment scheme. Under the brand name of "Ideal Treasures"(理想寶), Shenzhen Ideal earns handling fees from the borrowers upon each successful grant of loans.

Since the signing of LOI I, there has been collapses of online lending platforms in China. The Directors consider that the potential investment return arising from the possible acquisition in Shenzhen Ideal would be adversely affected in light of the fact that the regulations in online lending business would be further tightened by the government authorities. As of the date of this report, the Company has not entered into any binding agreement with the vendor in relation to the possible acquisition of Shenzhen Ideal.

On 28 September 2018, the Company, as purchaser, entered into a non-legally binding letter of intent ("**LOI II**") with a vendor, in relation to the possible acquisition in a controlling interest in Dolphin International Technology Co., Limited (海豚國際科技有限公司) ("**Dolphin International**"). Dolphin International is an innovative high-tech enterprise, focusing on the integration of the big data cloud platform of the internet by using the smart shared hardware, principally engaged in the provision of smart power bank rental and information dissemination services across China. The relevant due diligence review in relation to Dolphin International is currently in progress as of the date of this 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$38.5 million for the six months ended 30 September 2018, representing a decrease of approximately HK$2.3 million or 5.6% as compared to approximately HK$40.8 million for the six months ended 30 September 2017.

During the period 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 periods presented:

	Six months ended 30 September			
	2018		2017	
	HK$'000	**%**	HK$'000	%
Specialised communication systems and technologies	**1,741**	**4.5**	2,497	6.1
Synertone 1 satellite system	**–**	**–**	8,065	19.8
Building intelligence and smart home	**18,330**	**47.6**	20,123	49.4
Industrial control system	**18,469**	**47.9**	10,087	24.7
	38,540	**100.0**	40,772	100.0

The slight decrease in the Group's revenue for the six months ended 30 September 2018 was mainly attributable to the absence of revenue from Synertone 1 satellite system business as explained above, the effect of which was partly offset by the increase in sales generated by industrial control system business.

Cost of sales

Cost of sales of the Group consists of costs of raw materials, labour costs, manufacturing overheads and amortization charge of intangible assets. It decreased by approximately HK$25.3 million or 51.4% from approximately HK$49.2 million for the six months ended 30 September 2017 to approximately HK$23.9 million for the six months ended 30 September 2018.

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

The Group's gross profit for the six months ended 30 September 2018 was approximately HK$14.7 million, as compared with gross loss of approximately HK$8.4 million for the six months ended 30 September 2017. The overall gross profit margin for the six months ended 30 September 2018 was approximately 38.1%, as compared with gross loss margin of approximately 20.6% for the six months ended 30 September 2017. The turnaround was due to the absence of amortization expenses of intangible assets relating to safe communication technology and right to use Synertone 1 satellite bandwidth resource being recognised in cost of sales in the current period as the relevant intangible assets had been fully impaired in the preceding financial year.

Other income

Other income of the Group amounted to approximately HK$9.7 million for the six months ended 30 September 2018, representing an increase of approximately HK$3.0 million or 44.8% from approximately HK$6.7 million for the six months ended 30 September 2017. The increase was mainly due to the government grants received by the Group and recovery of impaired trade receivables in prior years that were non-recurring in nature.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately HK$3.1 million or 37.8% from approximately HK$8.2 million for the six months ended 30 September 2017 to approximately HK$5.1 million for the six months ended 30 September 2018.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK$3.0 million or 8.0% from approximately HK$37.3 million for the six months ended 30 September 2017 to approximately HK$34.3 million for the six months ended 30 September 2018, 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$2.6 million or 19.3% from approximately HK$13.5 million for the six months ended 30 September 2017 to approximately HK$10.9 million for the six months ended 30 September 2018.

Impairment loss of trade receivables

During the six months ended 30 September 2018, the Group generally grant a credit period of 30 to 180 days (2017: 30 to 180 days) to its trade customers. A longer credit period of 181 to 365 days (2017: 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 2018, trade receivables amounting to approximately HK$87.1 million (31 March 2018: HK$90.2 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$1.2 million (six months ended 30 September 2017: HK$12.5 million) was recognised in profit or loss for the six months ended 30 September 2018. The Group also recovered impaired trade receivables of approximately HK$4.1 million (six months ended 30 September 2017: HK$2.7 million) which was recognised as other income in profit or loss for the six months ended 30 September 2018. The Directors will take further possible actions to follow up those impaired receivables.

Impairment loss of goodwill

During the six months ended 30 September 2018, goodwill attributable to industrial control system cash generating unit amounting to approximately HK$1.5 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 interim period.

Finance costs

The finance costs of the Group was approximately HK$15.1 million for the six months ended 30 September 2018, comprising interest on bank and other borrowings of approximately HK$4.8 million, finance charges of approximately HK$9.2 million on finance lease payables, and effective interest on convertible bonds of approximately HK$1.1 million. The increase in finance costs of approximately HK$0.9 million or 6.3% from approximately HK$14.2 million for the six months ended 30 September 2017 was due to the slight increase in average balances of bank and other borrowings and convertible bonds.

Income tax

The tax credit of the Group decreased by approximately HK$0.7 million or 36.8% from approximately HK$1.9 million for the six months ended 30 September 2017 to approximately HK$1.2 million for the six months ended 30 September 2018, 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.

Loss for the period

Given the foregoing factors, the Group recorded the loss attributable to owners of the Company of approximately HK$57.2 million for the six months ended 30 September 2018, while the loss attributable to owners of the Company for the corresponding period in preceding year was approximately HK$84.4 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 30 September 2018, the Company's total number of issued ordinary shares of HK$0.05 each ("**Shares**") was 4,301,816,000 (31 March 2018: 3,348,800,000 Shares).

On 23 May 2017, the Company and Baoshan International Group Limited（寶山國際集團有限公司）(the "**Subscriber**"), an independent third party, entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, convertible bonds in the principal amount of HK$48,000,000 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 Board considered that the issue of the Convertible Bonds could provide an opportunity to the Company to raise additional funds to cater for its future needs while broadening the capital base of the Company. The Convertible Bonds shall mature after 2 years from the date of issue, and bear interest at 5% per annum on the outstanding principal thereof payable in arrears annually. The initial conversion price of the Convertible Bonds is HK$0.16 per Share, representing a premium of approximately 15.11% to the closing price of HK$0.139 per Share as quoted on the Stock Exchange on 23 May 2017, being the date of the Subscription Agreement. A maximum number of 300,000,000 conversion shares, which will rank pari passu with other shares in issue in all respects, will be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 30 September 2016. During the year ended 31 March 2018, the Company has issued Convertible Bonds in aggregate principal amount of HK$20,000,000 to the Subscriber.

During the six months ended 30 September 2018, the Company has issued the final tranche of the Convertible Bonds in an aggregate principal amount of HK$28,000,000 upon receipt of subscription money from the Subscriber. The net proceeds arising from the issue of the Convertible Bonds, after deduction of expenses, amounted to approximately HK$28,000,000, 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. 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$48,000,000. 300,000,000 Shares, representing approximately 7.50% 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 new Shares (the "**Subscription Share**") at the subscription price of HK$0.08 per Share (the "**Subscription**"), 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 aggregate nominal value of the Subscription Shares is HK$32,650,800. The net Subscription price is approximately HK$0.08 per Share. The Directors considered that the Subscription would provide additional funding for the Company to maintain the Group's working capital requirement while broadening the capital base of the Company. The Subscription was completed on 31 May 2018. The net proceeds, after deduction of expenses, amounted to approximately HK$52.2 million, which intended to be used as the Group's general working capital and/or for future investment opportunities. As of 30 September 2018, approximately HK$25.0 million of the net proceeds have been applied for the Group's working capital, mainly for payment of goods and operating expenses including staff salaries and rental expenses. The unutilised net proceeds have been placed as bank deposits and intended to be used as the Group's general working capital and/or for future investment opportunities. 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 six months ended 30 September 2018, 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 2018 was approximately 0.7 (31 March 2018: approximately 0.7). Gearing ratio calculated by total borrowings (comprising bank and other borrowings, finance lease payables and liability component of the Convertible Bonds) net of cash and cash equivalents, over total equity as at 30 September 2018 was (370)% (31 March 2018: (465)%). Notwithstanding the above, the Directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period as (a) the Group was not in the position to pay certain finance lease payables to the Vendor of Synertone 1 satellite bandwidth for the bandwidth resources fees due to the signing of the Settlement Agreement and the Transfer Agreement with the Vendor and the subsequent disposal of the entire issued share capital of Vastsuccess; and (b) the Group is able to generate sufficient operating cash flows to meet its financial obligations. Accordingly, the condensed consolidated financial statements of the Group have been prepared on a going concern basis.

The following table summarises the cash flows of the Group for the six months ended 30 September 2018 together with the comparative figures for the six months ended 30 September 2017:

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
Net cash from (used in) operating activities	**5,987**	(566)
Net cash used in investing activities	**(30,169)**	(4,422)
Net cash from (used in) financing activities	**58,879**	(6,404)

Operating activities

Net cash from operating activities amounted to approximately HK$6.0 million for the six months ended 30 September 2018, which was mainly attributable to the positive movement in net working capital that outweighed the net cash used in operations. In contrast, there was net cash used in operating activities of approximately HK$0.6 million in the corresponding period in last year.

Investing activities

Net cash used in investing activities amounted to approximately HK$30.2 million for the six months ended 30 September 2018, which was increased by approximately HK$25.8 million or 586.4% as compared with that for the corresponding period in last year. The increase was attributable to short term loans advanced to independent third parties.

Financing activities

Net cash from financing activities amounted to approximately HK$58.9 million for the six months ended 30 September 2018, which were mainly attributable to the proceeds from the Subscription and the issuance of the 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$6.4 million for the six months ended 30 September 2017, which were due to net repayment of bank and other borrowings.

Bank and other borrowings

As at 30 September 2018, the Group had outstanding bank and other borrowings of approximately HK$82.5 million (31 March 2018: HK$171.7 million).

Pledge of assets

As at 30 September 2018, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK$35.7 million (31 March 2018: HK$40.6 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent liabilities

As at 30 September 2018, the Group had no material contingent liabilities.

Major acquisition and disposal

For the six months ended 30 September 2018, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Significant capital expenditure for the period

Save as disclosed above, the Group has no significant capital expenditure commitments as at 30 September 2018.

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 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 2018.

Employee and remuneration policy

As at 30 September 2018, the Group had 264 employees (31 March 2018: 257). For the six months ended 30 September 2018, the staff costs of the Group amounted to approximately HK$17.3 million, representing a decrease of approximately HK$5.7 million or 24.5% as compared to HK$23.0 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 30 September 2018, the Company had 44,523,530 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are disclosed in note 22 to the condensed consolidated financial statements above.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2018 (six months ended 30 September 2017: nil).

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 2018, 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)*	27.77%
Mr. Han Weining	Beneficial owner	40,800,000	0.95%

Note: These interests in shares of the Company 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.

(B) LONG POSITIONS IN SHARE OPTIONS

Name of Directors	Date of grant	Exercise price (HK$)	Exercisable period	Outstanding as at 30.09.2018
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 2018, 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.

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 2018, 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 30 September 2018.

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. 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 30 September 2018, 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.

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 nonexecutive 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.

Details of the movement in the share options granted under the Share Option Scheme during the six months ended 30 September 2018 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 period under review	Lapsed during the period under review	Outstanding as at 30.09.2018
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	–	(655,470)	11,021,642
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	–	(655,470)	44,523,530

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 2018.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considers that the Company was in compliance with all the applicable code provisions as set out in the CG Code during the six months ended 30 September 2018 apart from code provision E.1.2 as disclosed below.

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

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

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

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. Upon the Company's specific enquiry, 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 2018.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2018 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

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 2018 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, 26 November 2018

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.