SYNERTONE

SYNERTONE COMMUNICATION CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1613)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

The board of directors (the "Board") of Synertone Communication Corporation (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2012 together with the comparative figures for the corresponding period in 2011. These interim results are unaudited, but have been reviewed by the Company's audit committee.

SUMMARY OF INTERIM FINANCIAL RESULTS

Condensed Consolidated Income Statement

For the six months ended 30 September 2012

	Note	For the six months ended 30 September 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Turnover	*4*	**49,346**	54,335
Cost of sales		**(22,612)**	(27,019)
Gross profit		**26,734**	27,316
Other revenue	*5*	**27,803**	1,983
Selling and distribution expenses		**(4,920)**	(5,334)
Administrative expenses		**(16,281)**	(14,801)
Research and development expenditure	*6(b)*	**(3,769)**	(7,463)
Profit from operations		**29,567**	1,701
Finance costs	*6(a)*	**–**	(803)
Profit before taxation	*6*	**29,567**	898
Income tax	*7*	**(8,056)**	(4,083)
Profit/(loss) for the period attributable to owners of the Company		**21,511**	(3,185)
		HK(cents)	*HK(cents)*
Earnings/(loss) per share	*9*		
— Basic		**1.84**	(0.35)
— Diluted		**1.84**	(0.35)

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 September 2012

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	**21,511**	(3,185)
Other comprehensive (loss)/income for the period (net of tax):		
Exchange differences on translation of financial statements of foreign operations	**(831)**	5,005
Total comprehensive income for the period attributable to owners of the Company	**20,680**	1,820

Condensed Consolidated Statement of Financial Position
As at 30 September 2012

	Note	**30 September 2012 *HK$'000* (Unaudited)**	31 March 2012 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*10*	**21,168**	9,686
Intangible assets	*11*	**15,188**	9,948
		36,356	19,634
Current assets			
Inventories		**17,256**	16,674
Trade and other receivables	*12*	**162,750**	190,285
Tax recoverable		**919**	919
Cash and cash equivalents		**90,188**	37,232
		271,113	245,110
Current liabilities			
Trade and other payables	*13*	**17,644**	25,550
Tax payable		**21,188**	22,178
		38,832	47,728
Net current assets		**232,281**	197,382
Total assets less current liabilities		**268,637**	217,016
Non-current liabilities			
Deferred tax liabilities		**7,782**	12,936
Net assets		**260,855**	204,080
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	*14*	**12,000**	9,000
Reserves		**248,855**	195,080
Total equity		**260,855**	204,080

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 September 2012

1. GENERAL

Synertone Communication Corporation (the "Company") was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Block B, Teng Bang Building, Qingshuihe Yi Road North, Luohu District, Shenzhen, the People's Republic of China (the "PRC") 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 Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies and providing a total solution of specialised communication system, including digital trunking system, Very Small Aperture Terminal ("VSAT") satellite system and operation integrated system.

The principal operations of the Group are conducted in the PRC. The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company, while the functional currency of the subsidiaries incorporated in the PRC is Renminbi ("RMB"). The directors consider that presenting condensed consolidated financial statements in HK$ is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to its immediate parent and ultimate holding company whose functional currency is HK$.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements set out in Appendix 16 and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated interim financial information does not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2012.

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

Amendment to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendment to HKFRS 7	Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets

The adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied any new standards, amendments and interpretations that have been issued but are not yet effective for the six months ended 30 September 2012. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On adoption of HKFRS 8, Operating segments, and in a manner consistent with the way in which information is reported internally to the Chairman, 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:

Digital trunking system: Digital trunking system is designed to meet the demand from governmental departments or agencies, public utilities institutions and business enterprises for public safety and emergency communication, mainly consists of CITONE digital trunking radio communication system, WITONE digital trunking radio communication system and DITONE digital trunking radio communication system. Based on the specifications of customers, the Group offers a range of core components forming digital trunking system which can be operated under direct network, transmission network, single base station trunking network, single area multiple base stations network and multi-area network. Different modes of digital trunking system can be set up and operated with various combinations of components addressing particular needs of users.

VSAT satellite system: VSAT satellite system is a component of the specialised communication system. VSAT satellite antenna is a major component of the VSAT satellite system which enables and maintains communication under in-motion mode. With different models of VSAT satellite antenna, the Group offers different VSAT satellite systems including (a) VSAT low speed satellite transmission system; (b) VSAT high speed dynamic digital satellite system and (c) VSAT high speed stationary digital satellite system.

Systems technologies: This segment developed a wide variety of technical know-how and technology relating to specialised communication system. The customers (a) paid a licensing fees to the Group for the use of certain technical know-how and technology; and (b) paid commissions to the Group to conduct research and development and to design and develop particular technical know-how to meet their specifications and requirements and needs.

The Group combined other business activities in "Others", in which, the Group offers accessory parts and components, as options to the customers for use in specialised communication system industry or other industry in accordance with customers' specifications.

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the production and sales activities of the individual segments with the exception of other corporate liabilities which are unallocated to an individual reportable segment.

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

The measure used for reporting segment profit is adjusted earnings before interest and taxes ("Adjusted EBIT"). To arrive at adjusted earnings before interest and taxes, the Group's profits are further adjusted for items not specifically attributed to an individual reportable segment, such as interest income, finance costs, income tax and other unallocated corporate expenses.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expenses from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	Digital trunking system		**VSAT satellite system**		**Systems technologies**		**Others**		**Total**	
	For the six months ended 30 September									
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers *(note)*	**43,822**	47,205	**5,472**	7,044	**–**	–	**52**	86	**49,346**	54,335
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**43,822**	47,205	**5,472**	7,044	**–**	–	**52**	86	**49,346**	54,335
Reportable segment profit (adjusted EBIT)	**29,914**	1,605	**944**	91	**–**	–	**2**	2	**30,860**	1,698
Interest income	**95**	79	**4**	6	**–**	–	**–**	–	**99**	85
Finance costs	**–**	(748)	**–**	(55)	**–**	–	**–**	–	**–**	(803)
Amortisation of intangible assets	**(2,357)**	(2,235)	**(422)**	(434)	**–**	–	**–**	–	**(2,779)**	(2,669)
Depreciation of property, plant and equipment	**(1,440)**	(1,653)	**(66)**	(121)	**–**	–	**–**	(2)	**(1,506)**	(1,776)
Income tax	**(7,705)**	(3,800)	**(350)**	(278)	**–**	–	**(1)**	(5)	**(8,056)**	(4,083)
Customer A	**27,720**	36,900	**4,995**	3,053	**–**	–	**–**	59	**32,715**	40,012
Customer B	**8,547**	–	**–**	–	**–**	–	**–**	–	**8,547**	–
Customer C	**5,218**	–	**–**	–	**–**	–	**–**	–	**5,218**	–
	41,485	36,900	**4,995**	3,053	**–**	–	**–**	59	**46,480**	40,012

Note: Revenues of three (2011: one) customers, each of them accounted for 10 percent or more of the Group's revenue for the six months ended 30 September 2012 are set out above.

	Digital trunking system		VSAT satellite system		Systems technologies		Other		Total	
	30 September 2012	31 March 2012	**30 September 2012**	31 March 2012	**30 September 2012**	31 March 2012	**30 September 2012**	31 March 2012	**30 September 2012**	31 March 2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Reportable segment assets	**284,921**	219,812	**17,836**	22,108	**–**	16,817	**4**	1,406	**302,761**	260,143
Additions to non-current segment assets during the period/year										
— Property, plant and equipment	**12,347**	2,166	**562**	238	**–**	159	**1**	22	**12,910**	2,585
— Intangible assets	**7,950**	–	**–**	–	**–**	–	**–**	–	**7,950**	–
	20,297	2,166	**562**	238	**–**	159	**1**	22	**20,860**	2,585
Reportable segment liabilities	**36,316**	41,351	**2,454**	2,578	**–**	2,073	**2**	338	**38,772**	46,340

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

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**49,346**	54,335
Elimination of inter-segment revenue	**–**	–
Consolidated revenue	**49,346**	54,335
Profit		
Reportable segment profit	**30,860**	1,698
Elimination of inter-segment profits	**–**	–
Reportable segment profit derived from Group's external customers	**30,860**	1,698
Interest income	**104**	85
Finance costs	**–**	(803)
Unallocated corporate expenses	**(1,397)**	(82)
Consolidated profit before taxation	**29,567**	898

	30 September 2012 HK$'000 (Unaudited)	31 March 2012 HK$'000 (Audited)
Assets		
Reportable segment assets	**302,761**	260,143
Elimination of inter-segment receivables	**–**	–
	302,761	260,143
Unallocated corporate assets	**4,708**	4,601
Consolidated total assets	**307,469**	264,744
Liabilities		
Reportable segment liabilities	**38,772**	46,340
Elimination of inter-segment payables	**–**	–
	38,772	46,340
Unallocated corporate liabilities	**7,842**	14,324
Consolidated total liabilities	**46,614**	60,664

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, and the location of the operation to which they are allocated in the case of intangible assets.

	Revenue from external customers For the six months ended 30 September		Non-current assets	
	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)	30 September 2012 HK$'000 (Unaudited)	31 March 2012 HK$'000 (Audited)
Hong Kong	**–**	1,950	**2,501**	22
PRC	**49,346**	52,385	**33,855**	19,612
	49,346	54,335	**36,356**	19,634

4. TURNOVER

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Digital trunking system	**43,822**	47,205
VSAT satellite system	**5,472**	7,044
Other accessory parts and components	**52**	86
	49,346	54,335

Note: The Group's operations are subject to cyclical fluctuation during a year. Generally, higher sales are experienced during the fourth quarter of a year because most customers' annual budgets are expected to be utilised before the end of each year.

5. OTHER REVENUE

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Bank interest income *(note a)*	**104**	85
Government grants *(note b)*	**978**	612
Value-added tax refund *(note c)*	**26,629**	1,166
Sundry income	**92**	120
	27,803	1,983

Note:

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

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

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

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on bank borrowings wholly repayable within five years	**–**	803

(b) Other items

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Amortisation of intangible assets	**2,779**	2,669
Depreciation of property, plant and equipment	**1,506**	1,776
Operating lease charges in respect of leased property	**3,254**	1,750
Research and development expenditure	**3,769**	7,463

7. INCOME TAX

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the period	**–**	–
Current tax — PRC Enterprise Income Tax ("EIT")		
Provision for the period	**13,210**	9,824
Deferred taxation		
Origination and reversal of temporary differences	**(5,154)**	(5,741)
	8,056	4,083

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

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

(iii) The provision for Hong Kong Profits Tax for the six months ended 30 September 2012 is calculated at 16.5% (2011: 16.5%).

(iv) The PRC subsidiaries of the Group, Synertone Soontend Electronic (Shenzhen) Company Limited ("Synertone Soontend") and Synertone Smartend Communication Technology (Shenzhen) Company Limited ("Synertone Smartend"), being the foreign invested "encouraged hi-tech enterprise" were entitled to a preferential income tax rate of 15% (2011: 15%) for the six months ended 30 September 2012.

Deferred tax liabilities of approximately HK$7,716,000 (31 March 2012: HK$12,804,000), in respect of the withholding income tax on dividend to be paid out of earnings not yet distributed since 1 January 2008 has been recognised by the Group for the six months ended 30 September 2012.

8. DIVIDENDS

A final dividend of 4 Hong Kong cents per share (2011: HK$Nil per share) amounting to HK$48,000,000 (2011: HK$Nil) in respect of previous year was approved and paid during the period.

During the six months ended 30 September 2012, no interim dividend was declared by the directors.

No interim dividend was declared by the directors during the six months ended 30 September 2011, but an interim dividend of 3 Hong Kong cents per share amounting to HK$27,000,000 was declared after the end of the reporting period by the directors.

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK$21,511,000 (2011: loss of approximately HK$3,185,000) and the weighted average number of 1,171,978,022 (2011: 900,000,000) ordinary shares in issue during the period.

There was no dilution of earnings per share as no potential ordinary shares were in issue for the six months ended 30 September 2012 (2011: HK$Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2012, the Group spent approximately HK$12,910,000 (2011: HK$583,000) on additions to property, plant and equipment.

11. INTANGIBLE ASSETS

Intangible assets of the Group comprised as follows:

	30 September 2012 *HK$'000* **(Unaudited)**	31 March 2012 *HK$'000* (Audited)
Technical know-how for digital trunking system	**12,032**	5,890
Technical know-how for VSAT satellite system	**400**	800
Administrative system costs	**2,756**	3,258
	15,188	9,948

During the six months ended 30 September 2012, addition in intangible assets represents the technical know-how for digital trading system with a cost of approximately HK$7,950,000 (2011: HK$Nil). The amortisation charge for the period is included in cost of sales and administrative expenses in the condensed consolidated income statements.

12. TRADE AND OTHER RECEIVABLES

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables *(note (a), (b) and (c))*	**153,943**	178,100
Advance to suppliers	**1,156**	1,033
Advance to staff	**1,554**	720
Loans and receivables	**156,653**	179,853
Prepayment for acquisition of intangible assets	**3,120**	3,315
Other prepayments and deposits	**2,977**	7,117
	162,750	190,285

(a) For the six months ended 30 September 2012, 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 2012: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2012: 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 ageing analysis of trade receivables based on date of delivery is as follows:

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–60 days	**40,478**	84,294
61–90 days	**12,967**	4,530
91–180 days	**501**	87,405
181–365 days	**98,468**	–
Over 365 days	**1,529**	1,871
	153,943	178,100
Less: Impairment loss on trade receivables	**–**	–
	153,943	178,100

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

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Neither past due nor impaired	**54,382**	176,105
Less than 1 month past due	**82,879**	1,995
1 to 3 months past due	**10,831**	–
More than 3 months but less than 12 months past due	**4,758**	–
More than 12 months past due	**1,093**	–
	99,561	1,995
	153,943	178,100

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. For any significant amounts past due, the Group would actively seek repayment from the debtors and the Group would enforce its legal right to the contractually due amount when considered necessary. The majority of the past due balances were due from government organisations in various places. They recognised all payment obligations, although the process of making payment has to follow a strict system integrators, whose customers' source of funding and process of making payment has to follow a strict governmental annual budgeting process and payment approval procedures, which in turn delayed the settlement by the system integrators of the amounts due to the Group. However, there have been no disputes over the balances due from these system integrators; therefore, the directors consider that the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	30 September 2012	31 March 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**9,340**	12,666
Accrued salaries	**2,328**	1,711
Accrued expenses and other payables	**1,400**	2,249
Financial liabilities measured at amortised costs	**13,068**	16,626
Deposits received from customers	**–**	653
Other tax payables	**4,576**	8,271
	17,644	25,550

The ageing analysis of trade payables based on date of receipt of good is as follows:

	30 September 2012 *HK$'000* **(Unaudited)**	31 March 2012 *HK$'000* (Audited)
0–60 days	**4,660**	2,983
61–90 days	**174**	871
91–180 days	**713**	3,200
181–365 days	**1,784**	2,741
Over 365 days	**2,009**	2,871
	9,340	12,666

The credit terms granted by the suppliers were generally ranging from 30 to 180 days during the period. The directors consider the carrying amounts of trade payables approximate to their fair values.

14. SHARE CAPITAL

Authorised and issued share capital

	No. of shares *'000*	**Amount** *HK$'000*
Authorised — Ordinary shares of HK$0.01 each		
At 31 March 2012 and 30 September 2012	2,000,000	200,000
Issued and fully paid — Ordinary shares of HK$0.01 each		
At 1 April 2012	900,000	9,000
Issue of shares under placing and public offering	300,000	3,000
At 30 September 2012	1,200,000	12,000

On 18 April 2012, the Company issued 300,000,000 shares with a par value of HK$0.01 each, at a price of HK$0.33 per share by way of placing and public offering ("the Global Offering"). Net proceeds from the Global Offering amounted to HK$84,095,000 (after deducting the issuance costs of HK$14,905,000).

15. COMMITMENTS

As at 30 September 2012, the Group had the following commitments:

(a) Capital commitments in respect of:

	30 September 2012 *HK$'000* **(Unaudited)**	31 March 2012 *HK$'000* (Audited)
Contracted but not provided for:		
Acquisition of intangible assets	**3,120**	3,120
Renovation of new office	**11,312**	469
	14,432	3,589

(b) Operating lease commitment for future minimum lease payments under non-cancellable operating leases in respect of land and building which fall due as follows:

	30 September 2012 *HK$'000* **(Unaudited)**	31 March 2012 *HK$'000* (Audited)
Within one year	**4,060**	3,950
In the second to fifth year inclusive	**16,582**	16,452
Over five years	**17,543**	19,789
	38,185	40,191

Operating lease payments represent rental payable by the Group for certain of its office and factory premises. Leases and rentals are negotiated and fixed for an average of 2 to 10 years. None of the leases includes contingent rentals.

16. MATERIAL RELATED PARTY TRANSACTIONS

Transactions with key management personnel

The remuneration of directors of the Company and other key management personnel of the Group during the period was as follows:

	For the six months ended 30 September	
	2012 *HK$'000*	2011 *HK$'000*
Short-term employee benefits	**4,125**	4,056
Post-employment benefit	**79**	76
	4,204	4,132

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of core components of specialised communication system. The products of the Group are mainly utilized by end-users for public safety and emergency communication purposes. For example, users are able to remotely monitor and co-ordinate emergency rescue exercises or remotely monitor the operation of and location of vehicles through the use of the Group's products. Customers or end-users of the Group's products and solutions are mainly governmental bodies and business enterprises.

Though there is an increasing awareness of the importance of emergency and specialized communication network to disaster relief and counter-terrorism activities, the economic and political uncertainties surrounding the domestic and foreign territories, the slow global economic recovery and the substantial increase in the cost of operation did, to certain extent, unfavourably impact the Group's specialised communication business.

During the six months ended 30 September 2012, the Group derived its revenue substantially from digital trunking system which accounted for approximately HK$43.8 million or 88.8% of its total revenue. The revenue of the Group for the six months ended 30 September 2012 decreased by approximately HK$5.0 million as compared to the corresponding period last year. The decrease in revenue was mainly attributable to a delay of the sales orders from some of the major customers from the first half to the second half of the year ending 31 March 2013.

Though the revenue for the six months ended 30 September 2012 decreased when compared with the corresponding period last year, the Group's gross profit margin increased from approximately 50.3% to 54.2%. The increase was mainly attributable to a higher portion of sales of Very Small Aperture Terminal ("VSAT") low speed satellite transmission system during the period. Comparing with the Group's other modules of VSAT satellite system, namely VSAT high speed dynamic digital satellite system and VSAT high speed stationary digital satellite system, the cost of raw materials for VSAT low speed satellite transmission system was relatively lower, which does not include the costly core components procured from the Group's suppliers. Thus, a higher gross profit margin could be derived from the sales of VSAT low speed satellite transmission system.

To exercise a better cost control over the VSAT satellite system and improve the Group's profitability, the Group has developed its own satellite antenna, being the core component of VSAT high speed dynamic digital satellite system, for production. The Directors believe that if the Group is able to produce its own satellite antenna, it will lower the overall production cost and thus increase the profit margin of VSAT high speed dynamic digital satellite system. The testing of the Group's own satellite antenna was completed. It is anticipated that the Group's own satellite antenna will be officially marketed to the customers of the Group in 2013.

FINANCIAL REVIEW

Turnover

The Group recorded a turnover of approximately HK$49.3 million for the six months ended 30 September 2012, representing a decline of approximately HK$5.0 million or 9.2% as compared with the amount of approximately HK$54.3 million in the corresponding period last year. The decrease was mainly attributable to (1) the decrease in sales of digital trunking system by approximately HK$3.4 million or 7.2% from approximately HK$47.2 million for the six months ended 30 September 2011 to approximately HK$43.8 million for the six months ended 30 September 2012; and (2) the decrease in sales of VSAT satellite system by approximately HK$1.5 million or 21.4% from approximately HK$7.0 million for the six months ended 30 September 2011 to approximately HK$5.5 million for the six months ended 30 September 2012, mainly due to a delay of the sales orders from the governmental bodies who are some of the major customers of the Group from the first half to the second half of the year ending 31 March 2013.

Gross profit and gross profit margin

The Group's gross profit for the six months ended 30 September 2012 was approximately HK$26.7 million, representing a decrease of approximately HK$0.6 million or 2.2% as compared with the amount of approximately HK$27.3 million for the six months ended 30 September 2011 due to a decrease in sales as discussed above. The increase in the overall gross profit margin from approximately 50.3% to 54.2% was mainly due to a higher portion of sales of the VSAT low speed satellite transmission system which has lower costs and thus higher gross profit margin.

Other revenue

The other revenue of the Group increased by approximately HK$25.8 million or 1,290.0% from approximately HK$2.0 million for the six months ended 30 September 2011 to approximately HK$27.8 million for the six months ended 30 September 2012. The increase was primarily due to a grant of the value-added tax refund by the PRC governmental authority of approximately HK$26.6 million as a financial support to the business of specialised communication system in which the Group is operating.

Administrative expenses

The administrative expenses of the Group increased by approximately HK$1.5 million or 10.1% from approximately HK$14.8 million for the six months ended 30 September 2011 to approximately HK$16.3 million for the six months ended 30 September 2012, primarily due to the net effect of the increase in consultancy fee by approximately HK$1.2 million, the increase in rental and management expenses by approximately HK$1.2 million due to the lease of a new premise in October 2011 for the relocation of its production base, and the effect was partially offset by the increase in exchange gain by approximately HK$0.9 million mainly arisen from the payment of final dividend for the year ended 31 March 2012.

Research and development expenditure

The research and development expenditure of the Group decreased by approximately HK$3.7 million or 49.3% from approximately HK$7.5 million for the six months ended 30 September 2011 to approximately HK$3.8 million for the six months ended 30 September 2012 mainly due to less research and development activities conducted during the six months ended 30 September 2012.

Finance costs

The Group had no finance costs for the six months ended 30 September 2012 since the Group had no debt financing during the six months ended 30 September 2012.

Tax expense

The tax expense of the Group increased by approximately HK$4.0 million or 97.6% from approximately HK$4.1 million for the six months ended 30 September 2011 to approximately HK$8.1 million for the six months ended 30 September 2012 mainly due to the increase in the profit for the period by approximately HK$28.7 million.

Profit for the period

The Group's profits for the six months ended 30 September 2012 increased by approximately HK$24.7 million from a net loss of approximately HK$3.2 million for the six months ended 30 September 2011 to a net profit of approximately HK$21.5 million for the six months ended 30 September 2012 mainly due to the increase in other revenue as discussed above.

Liquidity and capital resources

The liquidity requirements of the Group arise principally from the need for working capital to finance its operations and expansions. During the six months ended 30 September 2012, the Group met its working capital and other capital requirements principally from cash generated from its operations and capital contributions by its shareholders. In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings.

For the six months ended 30 September 2012, the net cash generated from operating activities, net cash used in investing activities, and net cash generated from financing activities were HK$34.1 million compared to the net cash used in operating activities of approximately HK$0.3 million of the corresponding period last year, HK$20.8 million compared to HK$0.5 million of the corresponding period last year, and HK$40.6 million compared to HK$10.6 million of the corresponding period last year respectively.

Bank borrowings

As of 30 September 2012, the Group had no outstanding bank borrowings.

Gearing ratio

The gearing ratio, calculated based on total bank borrowings at the end of the relevant year/period over total equity at the end of the relevant year/period for the six months ended 30 September 2012 was nil (31 March 2012: nil).

Pledge of assets

As of 30 September 2012, the Group had no assets pledged for securing any credit facilities.

Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2012.

Employee and remuneration policy

As at 30 September 2012, the Group had 237 employees. For the six months ended 30 September 2012, the staff cost of the Group was approximately HK$18.3 million, as compared to HK$25.2 million of the corresponding period last year.

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

The Group invests 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.

Use of net proceeds from the company's initial public offering

As at 30 September 2012, the Company had used approximately HK$8.1 million, HK$3.8 million and HK$2.0 million for the capacity expansion of the Group, expansion of sales network and research and development of products of digital trunking system and VSAT satellite system respectively.

PROSPECTS

Despite the uncertainties surrounding the global markets, resulting in negative impact on the Group's profitability in the first half of the year ending 31 March 2013, the Group will continue to strengthen research and development capability, and enhance product quality and functionality and network design and to develop new products which cater for the needs of the market. After years of dedicated research and development, the Group has developed a number of core technologies relating to digital trunking and satellite communication systems and become one of the few enterprises in the PRC with exclusive intellectual property rights in the market. Possessing such technology knowhow reassures the leading position of the Company in the specialised communication market.

In November 2012, the production base of the Group was re-located to another leased properties situated in Luohu District in Shenzhen, the PRC. The new production base occupied an aggregate gross floor area of approximately 12,000 sq.m. which was larger than the previous production base with an aggregate gross floor area of approximately 5,000 sq.m.. After the relocation, the Group is able to raise the production capacity to enhance the capability to cater for the demand of the customers and enable the Group to expand the business to overseas market in the future.

Looking ahead, the Board is optimistic about the demand for the Group's products and its sustainable growth in the future.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The shares of the Company were first listed on the Main Board of the Stock Exchange on 18 April 2012 ("Listing Date"). Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 30 September 2012.

INTERIM DIVIDEND

During the six months ended 30 September 2012, no interim dividend was declared by the directors.

No interim dividend was declared by the directors during the six months ended 30 September 2011, but an interim dividend of 3 Hong Kong cents per share amounting to HK$27,000,000 was declared after the end of the reporting period by the directors.

CORPORATE GOVERNANCE

The Directors consider that throughout the period from the Listing Date to 30 September 2012, the Company has fully complied with the applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the following deviation from certain code provision:

Code provision A.2.1 *stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.*

The Company has appointed Mr. Wong Chit On as both the chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve a higher responsiveness efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation at the Board, comprising the executive Directors and independent non-executive Directors.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry of all the Directors, all the Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code since the Listing Date to 30 September 2012.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENT

An audit committee was established by the Company on 22 March 2012 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and monitor the Group's financial reporting process and internal control system. The members of the audit committee are Mr. Lam Ying Hung Andy, Mr. Hu Yunlin and Mr. Wu Xiaowen, all being independent non-executive Directors. Mr. Lam Ying Hung Andy is the chairman of the audit committee.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2012 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.synertone.net). The interim report of the Company for the six months ended 30 September 2012 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

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

Hong Kong, 22 November 2012

As at the date of this announcement, the executive Directors are Mr. Wong Chit On, Mr. Lu Zhijie, Mr. Han Weining and Mr. Zhang Jinbing, and the independent non-executive Directors are Mr. Lam Ying Hung Andy, Mr. Hu Yunlin and Mr. Wu Xiaowen.