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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)

**CLARIFICATION ANNOUNCEMENT
AND SUPPLEMENTAL INFORMATION IN RELATION TO
ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2016**

Reference is made to the annual results announcement for the year ended 31 March 2016 (the “**Results Announcement**”) dated 15 August 2016 of Synertone Communication Corporation. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Results Announcement.

I. SUPPLEMENTAL INFORMATION IN RELATION TO THE RESULTS ANNOUNCEMENT

Further to the information as set out in the MANAGEMENT DISCUSSION AND ANALYSIS section of the Results Announcement, the Company would like to provide the following additional information on certain aspects of the Group’s results and financial position for the year ended 31 March 2016 as follows:

1. Business Review

(i) Synertone 1 Satellite System

The sales of the Synertone 1 satellite system decreased by approximately HK\$136.3 million or 89.9% from approximately HK\$151.6 million for the year ended 31 March 2015 to approximately HK\$15.3 million for the year ended 31 March 2016. It was mainly due to the Group’s commencement of the comprehensive technology upgrade for Synertone 1 satellite system from the second half of 2015, and the suspension of part of its business due to the upgrade.

The upgrade for Synertone 1 satellite system has begun from December 2015, and been carried out in phases. To address the highmarket demand, the whole progress has been expedited. A preliminary upgrade has been finished and it

enabled the Group to perform business demonstrations for different clients. The first major upgrade phase will be finished before the end of 2016, which will give the Group the ability to operate across China with an upgraded network with all the important features enabled.

(ii) VSAT Satellite System

The sales of VSAT satellite system decreased by approximately HK\$19.6 million or 94.2% from approximately HK\$20.8 million for the year ended 31 March 2015 to approximately HK\$1.2 million for the year ended 31 March 2016. It was mainly due to the Group's commencement of the comprehensive technology upgrade for Synertone 1 satellite system, and the supplementary VSAT satellite terminals for Synertone 1 satellite system which were in synchronous development and upgrade. It will start selling after completion of the first phase of the upgrade.

(iii) Digital Trunking System

The turnover of digital trunking system decreased by approximately HK\$95.4 million or 71.0% from approximately HK\$134.4 million for the year ended 31 March 2015 to approximately HK\$39.0 million for the year ended 31 March 2016. It was mainly due to the dampened demand from certain major customers as a result of the economic fluctuations and economic reform. The Company received only a small amount of orders from the second half of 2015.

(iv) Systems Technologies

The sales of systems technologies decreased by approximately HK\$17.7 million or 100% from approximately HK\$17.7 million for the year ended 31 March 2015 to HK\$NIL for the year ended 31 March 2016, primarily as a result of no technologies being licensed to the Group's customers for the year ended 31 March 2016, as compared to three technologies being licensed for the year ended 31 March 2015, mainly due to the sales of systems technologies, which are depending on customer's requirement, and was non-recurring.

(v) Other Accessory Parts and Components

The sales of other accessory parts and components decreased by approximately HK\$4.1 million or 180.4% from approximately HK\$5.1 million for the year ended 31 March 2015 to approximately HK\$1 million for the year ended 31 March 2016. It was mainly due to the decrease of digital trunking system.

2. Technology upgrade for Synertone 1 Satellite System

As set out in the Results Announcement, the Company has entered into a memorandum of understanding with Gilat on 20 November 2015 for developing a strategic cooperation in the areas of Synertone 1 ground system upgrade, manufacturing of satellite communication products, and the research and development of the next generation of satellite communication products. On the same date, the Group has also entered into the sales agreement with Gilat for purchasing gateway equipment, a right to use the NMS software and related technical support services. The purchase of equipment from Gilat under the sales agreement represent part of the Group's ordinary investments in upgrading its ground network segment of Synertone 1 satellite and thereby increase the capacity of Synertone 1 satellite substantially, allowing it to support more application scenarios, and improve the service quality. As mentioned in above paragraphs, the upgrade for Synertone 1 satellite system has begun from December 2015, and been carried out in phases. A preliminary upgrade has been finished and it enabled the Group to perform business demonstrations for different clients. The first major upgrade phase will be finished before the end of 2016, which will give the Group the ability to operate across China with an upgraded network with all the important features enabled.

3. Additional information about the Impairment Losses

(i) Impairment loss of trade receivables

For the year ended 31 March 2016, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (2015: 30 to 180 days). A longer credit period of 181 to 365 days (2015: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.

As at 31 March 2016, trade receivables amounting to HK\$61.2 million (2015: HK\$Nil) were individually determined to be impaired. The individually impaired receivables were outstanding beyond its credit period and without any repayment subsequent to the year end date. Accordingly, specific allowances for doubtful debts of HK\$61,207,000 (2015: HK\$Nil) were recognised. The Directors will take further possible actions to follow up those impaired receivables.

(ii) Impairment loss of property, plant and equipment

As at 31 March 2016, property, plant and equipment amounting to HK\$45.4 million (2015: HK\$Nil) were determined to be impaired. Impairment losses on property, plant and equipment in respect of the Group's digital trunking system and VSAT satellite system reportable segments have been recognised during the year ended 31 March 2016 which are based on value in use calculations and made reference to a valuation performed by an independent professional valuer. The impairment losses primarily arose as a result of the significant drop in demand and change in operating environment of customers in the near term. These calculations used cash flow projections based on financial forecasts prepared by management for the next five years, discounted using a pretax discount rate of 17.81%. Cash flows beyond the 5-year period were extrapolated using a growth rate of 3%. The discount rate used reflects specific risks relating to the relevant assets.

(iii) Impairment loss of Intangible Assets

As at 31 March 2016, intangible assets amounting to HK\$204.0 million (2015: HK\$Nil) were determined to be impaired. Impairment losses in respect of the Group's rights to use Synertone 1 satellite bandwidth related to Synertone 1 satellite system reportable segment has been recognised during the year ended 31 March 2016 primarily arose from the change in Group's operating strategy and upgrade of Synertone 1 satellite system. The impairment loss was provided based on value in use calculations with reference to a valuation report issued by an independent appraisal firm. These calculations used cash flow projections based on financial forecasts prepared by management cover the life of the intangible assets for a 9.5-year period and a discount rate of 15.23% has been applied. The discount rate used reflects specific risks relating to the relevant assets.

(iv) Impairment loss of goodwill

As at 31 March 2016, goodwill amounting to HK\$31.1 million (2015: HK\$Nil) were determined to be impaired, it was under provision of safe communication technologies cash generating unit. 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. The growth rate does not exceed the long-term average growth rate for the business in which the cash generating units operates.

Based on management's assessment and by reference to the calculations performed by an independent appraisal firm, ROMA Appraisal Limited, the carrying amounts of provision of safe communication technologies exceeded its recoverable amount as at 31 March 2016, the Group recognised impairment loss of HK\$31.1 million under provision of safe communication technologies cash generating unit.

4. Additional information about the Derivative financial instruments and Other Receivables

(i) Derivative financial instruments

As at 31 March 2016, Derivative financial instruments amounting to HK\$95.2 million (2015: HK\$Nil) were recognized. Derivative financial instruments represented the currently exercisable purchased call option over 51% voting power over Sense Field pursuant to the shareholders agreement entered into between the Group and the other shareholders of Sense Field. The call options are classified as derivative financial instruments and are carried at fair value. The fair value of the call options were calculated using the Binomial option pricing model by assuming the present value of business value for Sense Field, based on discounted cash flow forecast provided by management of the Group.

(ii) Other receivable

Other receivable mainly represented other receivables from two independent third parties of approximately HK\$90.6 million, mainly due to the Company will have opportunities to cooperate on acquiring some high-end technologies development orders.

In June 2015, the Group had entered into an agreement with an independent third party in relation to the co-operation of a tender project related to shipping dynamic information security system for digital trunking system. Pursuant to the terms of the agreement, the Group was required to prepay approximately HK\$60.0 million to assist the independent third party to fulfil the application requirements for the project, and will be returned when the project start or lose. As at 31 March 2016, the Group prepaid approximately HK\$60.1 million to the independent third party. Subsequent to the year-end date, the outstanding receivables was fully received by the Group as the timing of the project was uncertain and the parties thereby terminate the co-operation.

In June 2015, the Group had also entered into an agreement with an independent third party in relation to the co-operation of a tender project related to digital trunking system. Pursuant to the terms of the agreement, the Group was required to prepay approximately HK\$54.4 million to assist the independent third party to fulfil the application requirements for the project, and will be returned when the project start or lose. Further on 12 January 2016, the Group has entered into a termination agreement with the independent third party as a result of the failure in the tender. As at 31 March 2016, included in trade and other receivables were other receivables of approximately HK\$30.6 million from the independent third party. Subsequent to the year-end date, the outstanding receivables was fully received.

II. CLARIFICATION ON RESULTS ANNOUNCEMENT

The Company noted that there were clerical errors on pages 26 and 27 of the Results Announcement (in both the English and Chinese versions). The Company would like to clarify that:

1. the table summarises the cash flows of the Group for the two years ended 31 March 2015 and 2016 under MANAGEMENT DISCUSSION AND ANALYSIS section on page 26 of the Results Announcement shall be read as follows (with amendment underlined):

The following table summarises the cash flows for the two years ended 31 March 2015 and 2016:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net cash <u>(used in)</u> /generated from operating activities	<u>(15,945)</u>	22,817
Net cash <u>generated from</u> /(used in) investing activities	<u>5,074</u>	(66,906)
Net cash <u>(used in)</u> / <u>generated from</u> financing activities	(24,189)	7,768

2. the paragraphs in the sub-section headed “Operating activities”, “Investing activities” and “Financing activities” under MANAGEMENT DISCUSSION AND ANALYSIS section on page 27 of the Results Announcement shall be read as follows (with amendment underlined):

Operating activities

Net cash used in operating activities amounted to approximately HK\$15.9 million for the year ended 31 March 2016 compared to net cash generated from operating activities amounted to approximately HK\$22.8 million for the year ended 31 March 2015.

Investing activities

Net cash generated from investing activities amounted to approximately HK\$5.1 million for the year ended 31 March 2016 compared to net cash used in investing activities amounted to approximately HK\$66.9 million for the year ended 31 March 2015. The decrease in the net cash used in investing activities was mainly attributable to the decrease of payment of the acquisition of subsidiaries.

Financing activities

Net cash used in financing activities amounted to approximately HK\$24.2 million for the year ended 31 March 2016 compared to net cash generated from financing activities amounted to approximately HK\$7.8 million for the year ended 31 March 2015.

Other than the above changes and supplemental information, the contents of the Results Announcement remain unchanged.

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

Hong Kong, 30 August 2016

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