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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)**

**FURTHER SUPPLEMENTAL ANNOUNCEMENT  
IN RELATION TO  
THE 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 (the “**Company**”) and the announcement of the Company dated 30 August 2016 regarding, among others, the supplemental information in relation to the Results Announcement (the “**Supplemental Announcement**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Results Announcement.

In addition to the information provided in the Results Announcement and the Supplemental Announcement, the Company would like to further inform the shareholders and potential investors of the Company the following information:

**(1) IMPAIRMENT LOSS OF TRADE RECEIVABLES OF HK\$61,207,000**

Set out below are the underlying reasons causing the impairment loss of trade receivables:

As at 31 March 2016, the Group performed impairment assessment on trade receivables, because of the following objective evidence of impairment comes to the attention of the Group: (a) receivables from a number of customers were beyond its credit period and no subsequent settlement was noted; (b) extension of the credit period to more than 540 days upon the request from one major customer which accounted for 33% of the outstanding receivables, and the ability to settle is dependent on the recoverability of receivables from its customer; and (c) customers cannot provide supportive evidence to prove that they can settle the receivables.

**(2) IMPAIRMENT LOSS OF PROPERTY, PLANT AND EQUIPMENT OF HK\$45,452,000**

Set out below are the underlying reasons causing the impairment loss of property, plant and equipment:

Sales of digital trunking system business 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 and sales of VSAT satellite system business 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.

Digital trunking system products were sold to government departments and government authorities through the Group's customers. In 2016, demand for the digital trunking system products had a significant drop mainly due to (i) economic fluctuations in the PRC and (ii) change in the demand resulted from recent government authorities reform in 2016. As a result, demand of the customer is continuously affected and the Group could not get stable orders. Demand for VSAT satellite system was also affected by planned upgrade of Synertone 1 satellite system. Thus, the Group have not received substantial orders in the upcoming year, and therefore as a result of significant drop in demand during the year and the future demand remains uncertain, it is expected the Group will experience the same reduced sales and profit, impairment loss on property, plant and equipment in respect of the Group's digital trunking system and VSAT satellite system reportable segments was recognised.

**(3) IMPAIRMENT LOSS OF INTANGIBLE ASSETS OF HK\$204,024,000**

**(i) The detailed basis of assumptions**

The Company has made a number of reasonable assumptions in the course of its appraisal in respect of the Group's rights to use Synertone 1 satellite bandwidth related to Synertone 1 satellite system cash generating unit. Below are the major assumptions adopted:

- the recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on financial budgets approved by management covered the life of the assets. Growth rate of 6.5% was adopted with reference to the PRC's GDP growth rate which approximates China GDP annual growth rate according to 《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》(Outline of the Thirteenth Five-Year Plan for the National Economic and Social Development of the People's Republic of China).

As a result of the upgrade, revenue from Synertone 1 satellite system is expected to resume but growth of future sales is unpredictable, the Group therefore considered that the future growth will depend on the economic performance of the country, the Group therefore adopted the annual growth rate with reference to the PRC's GDP growth rate.

- WACC of 15.23% was adopted in determining the recoverable amount of the cash generating unit; calculated with reference to comparable companies engaged in similar business;
- there will be no material changes from political, legal, economic or financial aspects in the jurisdictions or states in which the Company currently runs or intends to run its business which will materially affect its operation;
- there will be no substantial market fluctuation in the industry in the jurisdictions or states in which the Company currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders; and
- there will be no substantial fluctuation in current tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which the Company currently runs or intends to run its business which will materially affect its operations and the revenues attributed to shareholders.

**(ii) The underlying reasons causing the impairment loss**

Set out below are the underlying reasons causing the impairment loss of intangible assets:

Impairment loss in respect of the Group's rights to use Synertone 1 satellite bandwidth related to Synertone 1 satellite system cash generating unit 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.

In September 2015, the Group planned to upgrade the Synertone 1 satellite system in order to accommodate market changes and requirements and to meet the changing needs of customers. Upon comprehensive consideration on the details of upgrade to be implemented, the upgrade was commenced in November 2015. Since then, demand for Synertone 1 satellite system was affected by the plan to upgrade. As a result, revenue has experienced a significant decline during the year. The Company assessed the recoverable amount of those intangible assets and accordingly, the carrying amount of the intangible assets was written down to their recoverable amount of HK\$271,394,000. An impairment loss of HK\$204,024,000 was recognised.

#### **(4) IMPAIRMENT LOSS OF GOODWILL OF HK\$31,063,000**

##### **(i) The detailed basis of assumptions**

The Company has adopted certain assumptions in the valuation of its safe communication technologies cash generating unit. Below are the major assumptions adopted:

- the recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Terminal growth rate of 3% was adopted based on the PRC's long term projected inflation rate as sourced from International Monetary Fund;
- cash flow projection are based on the actual operating results of the Group in the past few years, taking into account the sales orders subsequent to the year-end date and the estimated future operating expenses and capital expenditure. Fluctuations in the economic environment and industry changes and slowdown of economic growth in the PRC has also been taken into consideration;
- budgeted gross margin of 88% has been determined by the management based on historical experience and its expectations for market development;
- pre-tax discount rate of 20.08% has been adopted in the valuation by a firm of independent professional valuers, which estimates discount rates using pre-tax rates that reflects current market assessment of the time value of money and the risks specific to the cash generating unit;
- all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the cash generating unit operates or intends to operate would be officially obtained and renewable upon expiry;
- there will be sufficient supply of technical staff in the industry in which the cash generating unit operates, and the cash generating unit will retain competent management, key personnel and technical staff to support its ongoing operations and developments;
- there will be no major changes in the current taxation laws in the localities in which the cash generating unit operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- there will be no major change in the political, legal, economic or financial conditions in the localities in which the cash generating unit operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the cash generating unit; and
- interest rates and exchange rates in the localities for the operation of the cash generating unit will not differ materially from those presently prevailing.

**(ii) The underlying reasons causing the impairment loss**

Set out below are the underlying reasons causing the impairment loss of goodwill:

Revenue of digital trunking system business 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. Revenue from safe communication technologies used in digital trunking system also had a substantial decline.

Digital trunking system products were sold to government departments and government authorities through the Group's customers. In 2016, demand for the digital trunking system products had a significant drop mainly due to (i) economic fluctuations in the PRC and (ii) change in the demand resulted from recent government authorities reform in 2016. As a result, demand of the customer is continuously affected and the Group could not get stable orders.

As a result of the reasons above, the expected future sales will drop in accordance with the actual situation for the year ended 31 March 2016 which triggered the impairment of goodwill of the cash generating unit.

Based on management's assessment and by reference to the calculations performed by an independent appraisal firm, ROMA Appraisal Limited, the carrying amounts of those assets related to provision of safe communication technologies exceeded its recoverable amount as at 31 March 2016, the Group therefore recognised an impairment loss of HK\$31,063,000 under provision of safe communication technologies cash generating unit.

***(a) Change in Group's operating strategy and system upgrade became triggering events which caused the impairments***

Synertone 1 was launched in 2005, and its gateway system was also built 10 years ago. With the advance of the satellite communication technology during these period, this system is not be able to meet the new requirements from the market, such as the requirement of higher download and upload speed, the support of beam switching and communication on the move. Without the support of the features mentioned above, it is very hard for the Group to enter the business of 4G backhaul, In-Flight Connectivity (IFC), connectivity for high speed rail, etc.

In September 2015, the Group planned to upgrade the Synertone 1 satellite system in order to accommodate market changes and requirements to meet the changing needs of customers. Upon comprehensive consideration on the details of upgrade to be implemented, the upgrade was commenced in November 2015. Since then, demand for Synertone 1 satellite system was affected by the plan to upgrade. As a result, revenue has experienced a significant decline and resulted in impairment loss.

**(b) The nature of the balance of goodwill**

The balance of goodwill is allocated to the Group's cash generating units as follows:

	<b>2016</b> <i>HK\$000</i>
Provision of safe communication technologies	2,799
Building intelligence and smart home	19,033
Industrial control system	<u>193,128</u>
 Total	 <u><u>214,960</u></u>

**(aa) Provision of safe communication technologies**

The goodwill arising from the acquisition of Thrive United Holdings Limited and its subsidiaries in September 2014 is attributable to the anticipated cash flows from the provision of a safe communication environment for end users and the future operating synergies from the combination.

**(bb) Building intelligence and smart home**

The goodwill arising from the acquisition of Sense Field Group Limited and its subsidiaries (the "Sense Field Group") in December 2015 is attributable to the anticipated cash flows from future operating synergies from the customer base of Sense Field Group to the Group's existing business through the combination.

**(cc) Industrial control system**

The goodwill arising from the acquisition of MOX Products Pty Limited and its subsidiaries (the "MOX Group") in July 2015 is attributable to the anticipated cash flows from the future operating synergies through the combination of the automation control systems provided by MOX Group with the support of Synertone 1 satellite bandwidth.

**(5) DETAILS OF THE UPGRADE FOR SYNERTONE 1 SATELLITE SYSTEM**

As mentioned above, the upgrade for gateway system of Synertone 1 was commenced in November 2015. The upgrade not only gives the support of the features meeting the market requirements, but also could increase the total bandwidth of Synertone 1 from 12Gbps to around 20Gbps. Besides, with the network management system (NMS) also to be upgraded, the Group is capable of developing a new NMS and operations support system (OSS), evolving the business mode, and expanding the market of Synertone 1 from B2B business to B2C business.

The upgrade of gateway system is implemented in phases. In April 2016, the Group has set up a demonstration system to do some market promotions. The first phase is expected to be finished in the fourth quarter of 2016, and one third of the total bandwidth will be upgraded. With the upgraded bandwidth, the Group could enter the market fields they could not enter before, such as 4G backhaul, connectivity for high speed rail, etc. In phase 2 and 3, the Group will upgrade the rest bandwidth, build a comprehensive satellite communication network and evolve the business model to B2C business. The Company expected that the revenue from Synertone 1 satellite system will resume to the previous level and may further increase after the upgrade has been completed.

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

Hong Kong, 20 October 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. Wang Chen and Ms. Li Mingqi.*