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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Synertone Communication Corporation (the "**Company**", together with its subsidiaries, the "**Group**") announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2016 together with the comparative unaudited figures for the corresponding period in 2015. These interim financial results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016

	Note	For the six months ended 30 September 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Revenue	*4*	**50,102**	37,107
Cost of sales		**(48,323)**	(43,779)
Gross profit/(loss)		**1,779**	(6,672)
Other income	*5*	**21,434**	6,229
Fair value change on derivative financial instruments		**(34,697)**	–
Selling and distribution expenses		**(7,602)**	(2,562)
Administrative expenses		**(46,655)**	(29,736)
Research and development expenditure		**(15,597)**	(10,002)
Loss from operations		**(81,338)**	(42,743)
Finance costs	*6(a)*	**(13,714)**	(11,127)
Share of results of an associate		**240**	–
Loss before taxation	*6*	**(94,812)**	(53,870)
Income tax credit	*7*	**7,591**	940
Loss for the period		**(87,221)**	(52,930)
Attributable to:			
Owners of the Company		**(81,795)**	(52,930)
Non-controlling interests		**(5,426)**	–
		(87,221)	(52,930)
		HK cents	*HK cents* (restated)
Loss per share	*9*		
— Basic		**(2.60)**	(3.37)
— Diluted		**(2.60)**	(3.37)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(87,221)**	(52,930)
Other comprehensive loss 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	**(15,484)**	(9,900)
Total comprehensive loss for the period	**(102,705)**	(62,830)
Attributable to:		
Owners of the Company	**(93,629)**	(62,830)
Non-controlling interests	**(9,076)**	–
	(102,705)	(62,830)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2016

	Note	**As at 30 September 2016 *HK$'000* (Unaudited)**	As at 31 March 2016 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*10*	**106,495**	80,484
Prepaid lease payment		**8,767**	9,163
Intangible assets	*11*	**344,359**	375,584
Goodwill		**207,295**	214,960
Interest in an associate		**2,991**	2,844
Available-for-sale investments		**3,900**	3,900
Derivative financial instruments		**60,538**	95,235
Deposits and prepayments	*12*	**40,578**	8,901
		774,923	791,071
Current assets			
Inventories		**42,252**	37,746
Trade and other receivables	*12*	**319,216**	277,994
Prepaid lease payments		**201**	207
Cash and cash equivalents		**39,461**	12,421
		401,130	328,368
Current liabilities			
Trade and other payables	*13*	**86,296**	84,229
Bank and other borrowings	*14*	**109,064**	137,333
Finance lease payables	*15*	**146,949**	71,146
Amount due to a director		**1**	1
Current taxation		**9,429**	10,435
		(351,739)	(303,144)
Net current assets		**49,391**	25,224
Total assets less current liabilities		**824,314**	816,295

	Note	As at 30 September 2016 HK$'000 (Unaudited)	As at 31 March 2016 HK$'000 (Audited)
Non-current liabilities			
Bank and other borrowings	*14*	**3,484**	3,600
Finance lease payables	*15*	**266,179**	355,523
Deferred tax liabilities		**23,678**	32,874
		(293,341)	(391,997)
Net assets		**530,973**	424,298
Capital and reserves			
Share capital	*16*	**167,440**	83,720
Reserves		**313,247**	281,216
Equity attributable to owners of the Company		**480,687**	364,936
Non-controlling interests		**50,286**	59,362
Total equity		**530,973**	424,298

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

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 are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Block B, Teng Bang Building, 1st Qingshuihe Road, 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 "**Stock Exchange**").

The Group is principally engaged in (i) the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) providing a total solution of specialised communication system, including digital trunking system, Very Small Aperture Terminal ("**VSAT**") satellite system and operation integrated system, (iii) provision of Synertone 1 satellite bandwidth capacity and communication service application (iv) design, development and sale of automation control systems for industrial use and (v) research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings across the PRC.

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 and in reporting to its immediate parent and ultimate holding company whose functional currency is HK$.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial assets that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Accounting Standards ("**HKAS(s)**") and Hong Kong Financial Reporting Standards ("**HKFRS(s)**") (hereinafter collectively referred to as the "**revised HKFRSs**") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the above revised HKFRSs in the current interim period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. SEGMENT REPORTING

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

Digital Trunking System:	To meet the demand from governmental departments or agencies, public utilities institutions and business enterprises for public safety and emergency communication, we design digital trunking system, mainly consisting 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 for 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.
Synertone 1 Satellite System:	This segment represents provision of satellite bandwidth capacity and communication service application.
Building Intelligence and Smart Home:	Building intelligence and smart home segment provides customers with (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:	Industrial control system segment provides customers with (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.

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

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

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, bank and other borrowings and finance lease payables managed directly by the segments with the exception of 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 items not specifically attributed to an individual reportable segment, such as fair value change on derivative financial instruments and unallocated corporate expenses.

Segment revenue and results

	For the six months ended 30 September 2016						
	Digital trunking system *HK$'000* **(Unaudited)**	**VSAT satellite system** *HK$'000* **(Unaudited)**	**Synertone 1 satellite system** *HK$'000* **(Unaudited)**	**Building intelligence and smart home** *HK$'000* **(Unaudited)**	**Industrial control system** *HK$'000* **(Unaudited)**	**Others** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
Revenue from external customers	**1,790**	**–**	**2,100**	**36,530**	**9,661**	**21**	**50,102**
Inter-segment revenue	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reportable segment revenue	**1,790**	**–**	**2,100**	**36,530**	**9,661**	**21**	**50,102**
Reportable segment profit (loss) (Adjusted EBIT)	**(10,997)**	**(3,985)**	**(16,589)**	**1,768**	**(3,112)**	**8**	**(32,907)**
Fair value change on derivative financial instruments							**(34,697)**
Interest income							**1**
Finance costs							**(13,714)**
Unallocated corporate expenses							**(13,495)**
Consolidated loss before taxation							**(94,812)**

	For the six months ended 30 September 2015					
	Digital trunking system *HK$'000* (Unaudited)	VSAT satellite system *HK$'000* (Unaudited)	Synertone 1 satellite system *HK$'000* (Unaudited)	Industrial control system *HK$'000* (Unaudited)	Others *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Revenue from external customers	23,421	196	8,413	4,723	354	37,107
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	23,421	196	8,413	4,723	354	37,107
Reportable segment profit (loss) (Adjusted EBIT)	(12,998)	(271)	(28,450)	(1,114)	2,798	(40,035)
Interest income						42
Finance costs						(11,127)
Unallocated corporate expenses						(2,750)
Consolidated loss before taxation						(53,870)

Segment assets and liabilities

	30 September 2016 *HK$'000* (Unaudited)	31 March 2016 *HK$'000* (Audited)
Assets		
Digital trunking system	**318,413**	224,781
VSAT satellite system	**24,262**	52,256
Synertone 1 satellite system	**294,346**	299,550
Industrial control system	**208,360**	226,577
Building intelligence and smart home	**294,912**	312,250
Total segment assets	**1,140,293**	1,115,414
Available-for-sale investments	**3,900**	3,900
Unallocated corporate assets	**31,860**	125
Consolidated total assets	**1,176,053**	1,119,439
Liabilities		
Digital trunking system	**78,573**	81,532
VSAT satellite system	**4,622**	6,997
Synertone 1 satellite system	**410,060**	423,574
Industrial control system	**12,806**	15,907
Building intelligence and smart home	**133,972**	149,645
Total segment liabilities	**640,033**	677,655
Amount due to a director	**1**	1
Unallocated corporate liabilities	**5,046**	17,485
Consolidated total liabilities	**645,080**	695,141

4. REVENUE

The principal activities of the Group are (i) the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) providing a total solution of specialised communication system, including digital trunking system, VSAT satellite system and operation integrated system, (iii) provision of Synertone 1 satellite bandwidth capacity and communication services application, (iv) design, development and sale of automation control systems for industrial use and (v) research and development, manufacture and sales of intelligent building systems including video intercom and surveillance systems for building across the PRC.

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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Digital trunking system	**1,790**	23,421
VSAT satellite system	**–**	196
Synertone 1 satellite system	**2,100**	8,413
Building intelligence and smart home	**36,530**	–
Industrial control system	**9,661**	4,723
Other accessory parts and components	**21**	354
	50,102	37,107

5. OTHER INCOME

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income on bank deposits *(note a)*	**20**	44
Interest income on loan receivable *(note a)*	**333**	–
Government grants *(note b)*	**9,665**	1,088
Value-added taxes refund *(note c)*	**1,823**	4,922
Recovery of bad debts written off	**9,444**	–
Sundry income	**149**	175
	21,434	6,229

Notes:

(a) Interest income on bank deposits and loan receivable represents the total interest income on financial assets not at fair value through profit or loss ("**FVTPL**").

(b) 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".

(c) 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 (crediting):

(a) Finance costs

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Total interest expense on financial liabilities not at FVTPL:		
Interest expense on bank and other borrowings	**3,332**	1,435
Finance charges on finance lease payables	**10,382**	9,692
	13,714	11,127

(b) Other items

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expense	**28,083**	7,280
Amortisation of intangible assets	**28,082**	37,919
Depreciation of property, plant and equipment	**6,988**	4,645
Reversal of write down of inventories	**(2,433)**	–

7. INCOME TAX CREDIT

	For the six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("**EIT**") *(note d)*	**–**	1,270
Deferred tax		
Origination and reversal of temporary differences	**(7,591)**	(2,210)
	(7,591)	(940)

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) ("**Synertone Technology**"), 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% (2015: 25%).

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

Deferred tax liabilities have been recognised in respect of the withholding income tax on dividend to be paid out of undistributed earnings of the Group's PRC subsidiaries since 1 January 2008.

8. DIVIDENDS

During the six months ended 30 September 2016, no dividend was paid or proposed by the Company, nor has any dividend been proposed since the end of the reporting period (six months ended 30 September 2015: 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$81,795,000 (six months ended 30 September 2015: HK$52,930,000) and the weighted average number of 3,144,375,000 ordinary shares (six months ended 30 September 2015: 1,570,190,000 ordinary shares) in issue during the period.

The weighted average number of shares used in the calculation of basic loss per share for the six months ended 30 September 2015 has been adjusted for the effect of share consolidation during the year ended 31 March 2016 and the shares issued under rights issue completed on 28 April 2016 (Note 16).

(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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company	**(81,795)**	(52,930)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,144,375**	1,570,190
Adjustment for share options	**–**	–
Adjustment for warrants	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,144,375**	1,570,190

For the six months ended 30 September 2016 and 2015, 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.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2016, the Group spent approximately HK$35,356,000 (six months ended 30 September 2015: HK$2,913,000) on additions to property, plant and equipment.

11. INTANGIBLE ASSETS

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
Technical know-how for digital trunking system *(note a)*	**997**	1,866
Administrative system costs	**171**	174
Rights to use Synertone 1 satellite bandwidth *(note b)*	**252,185**	271,394
Safe communication technologies softwares *(note c)*	**25,504**	28,000
Patents and software *(note d)*	**50,592**	56,957
Trademark *(note d)*	**3,261**	3,774
Customer relationship *(note e)*	**11,649**	13,419
	344,359	375,584

Notes:

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

(b) It represents the possession of the resources of Synertone 1 for the provision of the application of the satellite bandwidth capacity and communication service application.

(c) Safe communication technology softwares and patents represent the softwares and patent technologies in relation to the provision of a safe communication environment for end users.

(d) Patents and software and trademarks related to automation control systems acquired by the Group for building intelligence and smart home and industrial control system during the year ended 31 March 2016.

(e) It represents customer relationship under building intelligence and smart home business and industrial control system business.

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. TRADE AND OTHER RECEIVABLES

	30 September 2016	31 March 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables *(notes a, b and c)*	**188,038**	198,234
Less: Allowance for doubtful debts	**(57,773)**	(61,207)
	130,265	137,027
Bills receivable	**697**	349
Advance to suppliers	**44,949**	25,812
Loan receivable *(note d)*	**20,000**	–
Other taxes receivables	**3,345**	2,929
Other receivables	**86,699**	94,016
Prepayment for acquisition of property, plant and equipment	**5,578**	8,901
Deposit for acquisition of additional equity interest in a subsidiary *(note e)*	**35,000**	–
Other prepayments and deposits	**33,261**	17,861
	359,794	286,895
Analysed for reporting purposes as:		
Non-current assets	**40,578**	8,901
Current assets	**319,216**	277,994
	359,794	286,895

Notes:

(a) For certain contracts, retention money representing 5% to 10% of the contract is not due until the warranty period expires, which varies from one year to two years. Included in trade receivables as at 30 September 2016 is retention money of HK$255,000 (31 March 2016: HK$294,000) which are expected to be recovered after the warranty period.

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

(c) The ageing analysis of trade receivables based on invoice date is as follows:

	30 September 2016	31 March 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–60 days	**5,239**	19,368
61–90 days	**4,543**	6,040
91–180 days	**11,433**	36,258
181–365 days	**36,800**	58,555
Over 365 days	**130,023**	78,013
	188,038	198,234
Less: Allowance for doubtful debts	**(57,773)**	(61,207)
	130,265	137,027

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

(e) On 29 June 2016, the Group entered into the sales and purchase agreement (the "**Further Acquisition S&P**") with independent third parties (the "**Vendors**") to further acquire an aggregate of 36% equity interest in Sense Field Group Limited ("**Sense Field**") for a cash consideration of HK$130,000,000. During the six months ended 30 September 2016, deposit of HK$35,000,000 has been paid pursuant to terms of the Further Acquisition S&P. Completion of the acquisition is subject to, among others, approval by independent shareholders in an extraordinary general meeting of the Company to be held after the end of the reporting period.

As at 30 September 2016, Sense Field was held as to 49% (31 March 2016: 49%) by the Group. According to the shareholders' agreement signed between the Vendors and the Group in December 2015, the Group would have a right to subscribe further equity interests in Sense Field. The currently exercisable purchased call option, if exercised, would give, in aggregate, the Group over 51% voting power over Sense Field. Based on the director's assessment, the currently exercisable purchased call option provided the Group with the potential voting rights over Sense Field which in turn provided the Company with the ability to control Sense Field and its subsidiaries (together the "**Sense Field Group**"). In preparing the Group's condensed consolidated financial statements for the six months ended 30 September 2016, Sense Field Group was consolidated as subsidiaries in accordance with HKFRS 10 *Consolidated Financial Statements*.

13. TRADE AND OTHER PAYABLES

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
Trade payables	**29,548**	26,036
Bill payables	**5,648**	4,026
Accrued salaries	**4,239**	4,784
Accrued expenses and other payables	**10,219**	13,611
Payable for acquisition of a subsidiary	**27,000**	27,000
Financial liabilities measured at amortised cost	**76,654**	75,457
Deposits received from customers	**4,736**	4,681
Other tax payables	**4,906**	4,091
	86,296	84,229

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

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
0–60 days	**4,304**	2,472
61–90 days	**4,711**	1,145
91–180 days	**2,534**	1,898
181–365 days	**956**	5,962
Over 365 days	**17,043**	14,559
	29,548	26,036

14. BANK AND OTHER BORROWINGS

	30 September 2016 *HK$'000* **(Unaudited)**	31 March 2016 *HK$'000* (Audited)
Bank borrowings		
— secured	**89,318**	97,090
— unsecured	**23,230**	32,643
Unsecured other borrowings	**–**	11,200
	112,548	140,933

As at 30 September 2016, bank and other borrowings were due for repayment as follows:

	30 September 2016	31 March 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Repayable within 1 year	**109,064**	137,333
Repayable after 1 year	**3,484**	3,600
	112,548	140,933

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. In addition, the Group's bank loan agreements contain clauses which give the lender the right to demand at its sole discretion immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, keeps track of the scheduled repayments of the term loans and considers that the bank is unlikely to exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 September 2016, none of the covenants relating to drawn down facilities had been breached (31 March 2016: HK$Nil).

All the bank and other borrowings, including amounts repayable on demand, are carried at amortised cost.

All the bank and other borrowings are fixed-rate borrowings which carry interest at prevailing interest rates of 4.79%–7.20% per annum for the period ended 30 September 2016 (31 March 2016: 4.30%–6.50% per annum).

15. FINANCE LEASE PAYABLES

As at 30 September 2016, the Group had obligation under finance leases repayable as follows:

	30 September 2016		31 March 2016	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Within 1 year	**146,949**	**149,855**	71,146	98,123
After 1 year but within 2 years	**65,131**	**71,001**	55,504	70,983
After 2 years but within 5 years	**178,141**	**211,507**	181,016	212,054
After 5 years	**22,907**	**46,537**	119,003	125,862
	266,179	**329,045**	355,523	408,899
	413,128	**478,900**	426,669	507,022
Less: total future interest expenses		**(65,772)**		(80,353)
Present value of lease obligations		**413,128**		426,669

16. SHARE CAPITAL

	30 September 2016 No. of shares *'000*	30 September 2016 Amount *HK$'000* (Unaudited)	31 March 2016 No. of shares *'000*	31 March 2016 Amount *HK$'000* (Audited)
Authorised:				
At beginning of the period/year				
Ordinary shares of HK$0.01 each	**–**	**–**	20,000,000	200,000
Ordinary shares of HK$0.05 each	**8,000,000**	**400,000**	–	–
Increase during the period/year	**–**	**–**	4,000,000	200,000
Share consolidation	**–**	**–**	(16,000,000)	–
At end of the period/year				
Ordinary shares of HK$0.01 each	**–**	**–**	–	–
Ordinary shares of HK$0.05 each	**8,000,000**	**400,000**	8,000,000	400,000
Issued and fully paid:				
At beginning of the period/year				
Ordinary shares of HK$0.01 each	**–**	**–**	6,445,000	64,450
Ordinary shares of HK$0.05 each	**1,674,400**	**83,720**	–	–
Issue of shares upon acquisition of subsidiaries	**–**	**–**	1,927,000	19,270
Share consolidation	**–**	**–**	(6,697,600)	–
Issue of shares upon rights issue *(note)*	**1,674,400**	**83,720**	–	–
At end of the period/year				
Ordinary shares of HK$0.01 each	**–**	**–**	–	–
Ordinary shares of HK$0.05 each	**3,348,800**	**167,440**	1,674,400	83,720

Note: During the six months ended 30 September 2016, the Company issued 1,674,400,000 new shares upon completion of the rights issue on the basis of one rights share for every one ordinary share in issue at the subscription price of HK$0.125 per rights share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a satellite resource operator in research and development and manufacturing satellite equipment, as well as a provider of information network solutions. The Group provides customers with (i) the satellite bandwidth capacity and the bandwidth capacity service; (ii) the right to use for the transmission of satellite broadband Internet access and other applications; (iii) core components of and solutions to specialised communication systems; and (iv) earth-terminal infrastructure of and information network solutions to satellite communication systems. Thanks to its self-initiated research and development efforts and through the acquisition of the related customer resources, intellectual property rights and technical know-how from third parties, the Group designs and develops products and technologies related to digital trunking systems and satellite communications systems.

The Group is principally engaged in five major businesses, namely (i) the digital trunking system business; (ii) the VSAT satellite system business; (iii) Synertone 1 satellite system business; (iv) the building intelligence and smart home business; and (v) the industrial control system business.

For the six months ended 30 September 2016, the Group's turnover was approximately HK$50.1 million, representing an increase of approximately HK$13.0 million or 35.0% when compared to approximately HK$37.1 million for the six months ended 30 September 2015. It was mainly contributed by the building intelligence and smart home business operated by Sense Field Group which were acquired by the Group in the second half of the preceding financial year. For the six months ended 30 September 2016, the Group's turnover from building intelligence and smart home business was approximately HK$36.5 million, accounting for 72.9% of its total turnover.

On the other hand, turnover from digital trunking system and Synertone 1 satellite system businesses decreased due to adjustments were made to certain business markets and opportunities in light of the comprehensive upgrade measures for the satellite resources network by the Group during the period so as to avoid the potential huge compensation cost derived from the change in services.

On 16 December 2015, the Group completed the acquisition of 49% equity interest in Sense Field for the access to and the expansion of Synertone 1 satellite service business by utilizing domestic sales network and customer resources of Sense Field Group as well as its research and production base located in the Yangtze River Delta. On 29 June 2016, the Group entered into the sale and purchase agreement with the vendors to further acquire an aggregate of 36% equity interest in Sense Field for a cash consideration of HK$130 million ("**Proposed Further Acquisition**"). As at the date of this announcement, the Proposed Further Acquisition has not been completed.

PROSPECTS

The Group has commenced the upgrade for Synertone 1 satellite's gateway system since November 2015. The upgrade does not only meet the market requirements, but can also increase the total bandwidth of the Synertone 1 satellite system from 12Gbps to around 20Gbps. Besides, with the network management system (NMS) to be upgraded also, the Group is capable of developing a new NMS and operations support system (OSS), evolving the business mode, and expanding the market of the Synertone 1 satellite system from B2B business to B2C business.

The upgrade of gateway system will be implemented in phases. In April 2016, the Group has set up a demonstration system to do market promotions. The first phase is expected to be finished in the fourth quarter of 2016, and by then one third of the total bandwidth will be upgraded. With the upgraded bandwidth, the Group can enter market fields which they could not enter before, such as 4G backhaul, connectivity for high speed rail and etc. In phase 2 and 3, the Group will upgrade the rest of the bandwidth, build a comprehensive satellite communication network and evolve the business model from B2B to B2C business. The Company expects that, after the upgrade has been completed, the revenue generated from the Synertone 1 satellite system will resume to the previous level and may further increase.

On 24 November 2016, the Company entered into a non-exclusive manufacturing agreement with a cooperating partner ("**Manufacturing Agreement**"), pursuant to which the cooperating partner grants a non-exclusive license to the Company to manufacture certain of its products including the "Capricorn" and "Gemini" VSAT's as set out in the Manufacturing Agreement (the "**Products**"), and the right to manufacture and sell the Products to the Company's customers using the services of the "Synertone 1" satellite within the territory of the PRC including Hong Kong, Macau and Taiwan. The Company considers that the entering into of the Manufacturing Agreement represents a good opportunity for the Group to fully utilize its manufacturing facility, enhance its product capability and services enabling the Group to further expand its business and revenue base.

In the short term, the Company expects that revenue generated from the Synertone 1 satellite system will decrease for a period of time until the abovementioned upgrade shall have been completed, and expects that there will be difficulties in yielding considerable revenue during the year. The Company is striving for comprehensive market opportunities for its business development through identifying more channels and markets in various ways, and is planning to launch new satellite system products in line with the high-speed resources and information services under the fully upgraded Synertone 1 satellite system in the coming year. The Company is confident of its business planning and development. It is expected that the Company's continuous innovation and efforts will present it a brand new image in the coming year.

FINANCIAL REVIEW

Turnover

The Group recorded turnover of approximately HK$50.1 million for the six months ended 30 September 2016, representing an increase of approximately HK$13.0 million or 35.0% as compared with that of approximately HK$37.1 million for the corresponding period last year. The increase was mainly attributable to (1) the sales of approximately HK$36.5 million from building intelligence and smart home business for the six months ended 30 September 2016, as compared with nil recorded during the six months ended 30 September 2015; and (2) the drop in sales of digital trunking systems by approximately HK$21.6 million or 92.3% from approximately HK$23.4 million for the six months ended 30 September 2015 to approximately HK$1.8 million for the six months ended 30 September 2016.

Gross Profit (Loss)

The Group's gross profit for the six months ended 30 September 2016 was approximately HK$1.8 million, as compared with gross loss of approximately HK$6.7 million for the six months ended 30 September 2015. There was an increase in the overall gross profit margin from approximately (18.0)% to 3.6%, mainly as a result of (1) gross profit contributed by the building intelligence and smart home business of the Sense Field Group; and (2) the substantial drop in the amortisation costs of Synertone 1 satellite bandwidth.

Other Income

Other income of the Group increased by approximately HK$15.2 million or 245.2% from approximately HK$6.2 million for the six months ended 30 September 2015 to approximately HK$21.4 million for the six months ended 30 September 2016. The increase was mainly due to the increase in government grants received by the Group and recovery of bad debts written off in prior years.

Fair Value Change on Derivative Financial Instruments

The loss on fair value change on derivative financial instruments was approximately HK$34.7 million for the six months ended 30 September 2016, as compared with nil in the corresponding period last year. Derivative financial instruments represent the currently exercisable purchased call option over 51% voting power over Sense Field.

Selling and Distribution Expenses

For the six months ended 30 September 2016, the selling and distribution expenses of the Group amounted to approximately HK$7.6 million, representing an increase of 196.7% as compared with that of approximately HK$2.6 million for the six months ended 30 September 2015. The increase was mainly attributable to Sense Field Group which was acquired by the Group in the second half of the preceding financial year.

Administrative Expenses

The administrative expenses of the Group increased by approximately HK$17.0 million or 56.9% from approximately HK$29.7 million for the six months ended 30 September 2015 to approximately HK$46.7 million for the six months ended 30 September 2016. The increase is mainly attributable to MOX Products Pty Limited ("**MOX**") and its subsidiaries (collectively referred to as the "**MOX Group**") and the Sense Field Group which were acquired by the Group during the year ended 31 March 2016.

Research and Development Expenditure

The research and development expenditure of the Group increased by approximately HK$5.6 million or 55.9% from approximately HK$10.0 million for the six months ended 30 September 2015 to approximately HK$15.6 million for the six months ended 30 September 2016, mainly attributable to Sense Field Group which was acquired in the second half of preceding financial year.

Finance Costs

The finance costs of the Group arise from bank and other borrowings as well as finance lease payables in relation to the acquisition of Synertone 1 satellite bandwith resources and motor vehicles. The Group's finance costs increased by approximately HK$2.6 million or 23.4% from approximately HK$11.1 million for the six months ended 30 September 2015 to approximately HK$13.7 million for the six months ended 30 September 2016.

Income Tax Credit

The income tax credit of the Group increased by approximately HK$6.7 million or 744.4% from approximately HK$0.9 million for the six months ended 30 September 2015 to approximately HK$7.6 million for the six months ended 30 September 2016. It was mainly attributable to the decrease of the PRC income tax charge due to loss from operations, and reversal of temporary differences arising on fair value adjustments on property, plant and equipment and intangible assets.

Loss for the Period

The Group recorded a loss of approximately HK$87.2 million for the six months ended 30 September 2016, as compared with the loss of approximately HK$52.9 million for the six months ended 30 September 2015, mainly due to the loss on fair value change on derivative financial instruments and the decrease in turnover from digital trunking system business and Synertone 1 satellite system business as compared to the corresponding period last year.

Liquidity and Capital Resources

The liquidity requirements of the Group arise principally from the need for working capital to finance its operations and expansions. Previously, the Group met its working capital and other capital requirements principally from cash generated from its operations, bank borrowings and capital contributions by the 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.

For the six months ended 30 September 2016, the net cash used in operating activities, net cash used in investing activities, and net cash generated from financing activities were HK$41.6 million (compared to HK$37.3 million for the corresponding period last year), HK$51.7 million (compared to HK$2.7 million for the corresponding period last year), and HK$120.7 million (compared to net cash used in financing activities of HK$3.1 million for the corresponding period last year), respectively.

On 28 April 2016, the Company completed the rights issue of 1,674,400,000 new shares of the Company at the subscription price of HK$0.125 per rights share. The net proceeds from the rights issue after deducting all necessary expenses were approximately HK$207 million, which are intended to be used (i) as to approximately HK$130 million for the Proposed Further Acquisition of further 36% equity interest in the Sense Field Group; and (ii) as to the remaining balance of approximately HK$77 million for general working capital of the Group. As at 30 September 2016, HK$35 million was paid by the Group as payment of deposit for the Proposed Further Acquisition.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.14 as at 30 September 2016 (31 March 2016: approximately 1.08). The gearing ratio, calculated by total borrowings (comprising bank and other borrowings and finance lease payables), net of cash and cash equivalents, over total equity, was 92% as at 30 September 2016 (31 March 2016: 131%).

On 22 September 2014, the Group completed the issue of 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 the share consolidation which came into effect 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 2016, the warrants were not yet exercised.

Bank and Other Borrowings

As at 30 September 2016, the Group had outstanding bank and other borrowings of HK$112.5 million (31 March 2016: HK$140.9 million).

Pledge of Assets

As at 30 September 2016, the Group had land use rights and property, plant and equipment in aggregate carrying value of HK$56.7 million (31 March 2016: HK$60.0 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 September 2016.

Financing and Treasury Policies

The Group continues to adopt prudent financing and treasury policies. All the Group's financing and treasury activities are centrally managed and controlled. The Group's related policies are implemented after thorough and extensive consideration on liquidity risk, financing cost and exchange rate risk is made.

Foreign Exchange Risk

Substantially all transactions of the Group are denominated in RMB, United States dollars and Hong Kong dollars and most of the bank deposits are held in RMB and Hong Kong dollars to minimise exposure to foreign exchange risk. As the fiscal policy of the Central Government of the PRC in relation to RMB remained stable throughout the period, the Directors believe that the Group's potential foreign exchange exposure was limited. Moreover, the existing operation activities of the Company is mainly located in mainland China. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the six months ended 30 September 2016.

Material Acquisitions and Disposals

For the six months ended 30 September 2016, except the Proposed Further Acquisition disclosed above, the Group did not have any other material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As at 30 September 2016, the Group had 457 employees (31 March 2016: 465). For the six months ended 30 September 2016, the staff cost of the Group was approximately HK$26.7 million, which increased by approximately HK$6.6 million or 32.8% as compared to HK$20.1 million for the corresponding period last year, mainly due to the increase in staff level upon completion of the acquisitions of MOX and Sense Field during the preceding financial 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 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 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.

The Group has been committing resources to 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, ranging from technical training for production staff to financial and administrative trainings for management staff.

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 2016.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: nil).

CORPORATE GOVERNANCE PRACTICES

The Directors consider that throughout the six months ended 30 September 2016, the Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules, except for the following deviation:

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

Mr. Wong Chit On, the Chairman of the Board, was not able to attend the annual general meeting held on 30 September 2016 due to another important business meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct for securities transactions by Directors. All Directors have confirmed, following specific enquiries made by the Company, that they have complied with the required standards set out in the Model Code during the six months ended 30 September 2016.

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, Mr. Lam Ying Hung Andy (as chairman), Mr. Wang Chen and Ms. Li Mingqi. The principal duties of the Audit Committee include the overview of the Company's financial reporting system, risk management and internal control systems and financial information of the Group. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2016 have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites 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 2016 will be despatched to the Shareholders and published on the aforesaid websites in due course.

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

Hong Kong, 30 November 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.