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協同通信集團有限公司
Synertone Communication Corporation
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1613)

PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE

PROPOSED ISSUE OF CONVERTIBLE BONDS

On 23 May 2017 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the principal amount of HK\$48,000,000 in tranche(s) in accordance with the written demand(s) by the Company to be made within twelve (12) months immediately after the Completion Date.

Upon full conversion of the Convertible Bonds at the Conversion Price of HK\$0.16 per Conversion Share (subject to adjustments), a total of 300,000,000 Conversion Shares will be allotted and issued to the Subscriber, representing (i) approximately 8.96% of the existing issued share capital of the Company; and (ii) approximately 8.22% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, assuming there is no other change in the issued share capital of the Company between the date of this announcement and the full conversion of the Convertible Bonds.

The Convertible Bonds will be issued under the General Mandate and the net proceeds arising from the issue of the Convertible Bonds, after deduction of expenses, will amount to approximately HK\$47,970,000, which shall be applied towards the Group's general working capital.

As the Subscription Agreement may or may not complete, Shareholders and potential investors are urged to exercise extreme caution when dealing in the Shares.

PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

Date

23 May 2017 (after trading hours of the Stock Exchange)

Parties

- (1) The Company as issuer; and
- (2) Baoshan International Group Limited as the Subscriber.

The Subscriber is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding, with its entire issued shares being wholly and beneficially owned by Mr. Wang Jian (王堅) (“**Mr. Wang Jian**”). As at the date of this announcement, Mr. Wang Jian has a beneficial interest in 17,520,000 Shares.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Subscriber and its ultimate beneficial owner are Independent Third Parties.

Subject matter

Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$48,000,000 in tranche(s) in accordance with the written demand(s) by the Company to be made within twelve (12) months immediately after the Completion Date.

Conditions precedent

Completion is subject to and conditional upon:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject to such conditions to which both the Company and the Subscriber shall reasonably accept) the listing of, and permission to deal in the Conversion Shares, and such permission not subsequently revoked or withdrawn prior to Completion;
- (b) the Company having obtained, without prejudice to condition (a) above, all necessary consent, approval and authorization from any Governmental Authority in Hong Kong, Cayman Islands or elsewhere in respect of the issue of the Convertible Bonds; and
- (c) all the warranties remaining true and correct in all material respects, and the Company having performed in all material aspects all of its undertakings or obligations under the Subscription Agreement before the Completion Date.

Save that the Subscriber may waive the condition precedent set out in paragraph (c) above, all other conditions precedent set out above cannot be waived by the Company or the Subscriber.

In the event that any of the conditions precedent referred to above is not fulfilled or waived (to the extent it is capable of being waived) in full at or before 5:00 p.m. on the Long Stop Date (or such later date as may be agreed between the Company and the Subscriber in writing), the Subscription Agreement shall cease and determine and become null and void and thereafter, neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Other material term

The Company agrees with and undertakes to the Subscriber that the Group will not engage in any other business activities other than the Principal Business, or sell or dispose of all or a substantial part of its business or assets which will have the effect of changing the Group’s Principal Business, with such an undertaking to take effect only upon full subscription of the Convertible Bonds.

Completion

Completion shall take place on the Completion Date, subject to the fulfilment or the waiver (if applicable) of the conditions precedent as set out in the Subscription Agreement.

Principal terms of the Convertible Bonds

A summary of the principal terms of the Convertible Bonds is set out as follows:

- Issuer:** The Company
- Principal Amount:** HK\$48,000,000
- Issue Price:** 100% of the principal amount of the Convertible Bonds
- Interest Rate:** The Convertible Bonds shall bear interest from the date of issue of the Convertible Bonds until the date of redemption of the Convertible Bonds at the rate of 5% per annum on the outstanding principal thereof, payable in arrears annually on the anniversary date of the issue of the Convertible Bonds
- Maturity Date:** The date falling on the second anniversary of the issue of the Convertible Bonds
- Conversion Price:** HK\$0.16, being the initial conversion price per Conversion Share

The Conversion Price was arrived at after arm’s length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares and represents:

- (i) a premium of approximately 15.11% to the closing price of HK\$0.139 per Share as quoted on the Stock Exchange on 23 May 2017, being the date of the Subscription Agreement;
- (ii) a premium of approximately 11.27% to the average closing price of HK\$0.1438 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Subscription Agreement; and
- (iii) a premium of approximately 9.44% to the average closing price of HK\$0.1462 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the date of the Subscription Agreement.

Adjustments to the Conversion Price:

The Conversion Price shall from time to time be adjusted in accordance with the relevant provisions under terms and conditions of the Convertible Bonds upon the occurrence of the following:

- (i) consolidation, subdivision or reclassification of the Shares;
- (ii) capitalization of profits or reserves (other than in lieu of a cash dividend);
- (iii) capital distribution to the Shareholders or grant to the Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries; and
- (iv) offer new Shares to the Shareholders for subscription by way of rights, or grant to the Shareholders any options or warrants to subscribe for new Shares at a price which is less than 80% of the current market price as at the date of the announcement of the terms of the offer or grant.

Conversion:

After expiry of the first twelve (12) months' period from the date of issue of the Convertible Bonds, the conversion rights attaching to the Convertible Bonds can be exercised at any time during a period of two (2) years commencing from the date of issue of the Convertible Bonds provided that no conversion right shall be exercised if it will result in (i) insufficient public float of the Shares as required under the Listing Rules; (ii) the number of Conversion Shares issued will exceed the number of Shares that can be issued by the Directors under the General Mandate; or (iii) the holder(s) of the Convertible Bonds (whether alone or together with parties

acting in concert) being obliged to make a Mandatory Offer under the Takeovers Code.

The total number of Conversion Shares to be issued pursuant to the exercise of the conversion rights attaching to the Convertible Bonds shall be restricted to the extent and with the intention that, immediately after conversion, Excel Time shall not cease to be the controlling shareholder of the Company within the meaning of the Listing Rules.

In the event that the Conversion Price is adjusted in accordance with the relevant provisions under terms and conditions of the Convertible Bonds such that after such adjustment (i) the total number of Shares issued upon a holder of the Convertible Bonds exercising the conversion rights will be more than the maximum number of Shares that the Company can allot and issue under the General Mandate; or (ii) the total number of Shares issued upon a holder of the Convertible Bonds exercising the conversion rights (together with the then issued Shares) will be more than the authorised share capital of the Company; or (iii) a general offer obligation on the holder of the Convertible Bonds under Rule 26 of the Takeovers Code will be triggered; or (iv) a holder of the Convertible Bonds is unable to convert any part of the Convertible Bonds as the Company will be unable to meet the public float requirement under the Listing Rules, such additional number of Share(s) otherwise entitled to be converted by the holder of the Convertible Bonds would be compensated in cash by the Company, payable on the maturity date of the Convertible Bonds.

During the first twelve (12) months from the date of issue of the Convertible Bonds, the conversion rights attaching to the Convertible Bonds cannot be exercised without prior written consent of the Company.

Conversion Shares: Upon exercise of the conversion rights under the Convertible Bonds in full at the Conversion Price of HK\$0.16 per Conversion Share, a total of 300,000,000 Conversion Shares will be allotted and issued to the Subscriber, representing:

- (i) approximately 8.96% of the existing issued share capital of the Company; and
- (ii) approximately 8.22% of the issued share capital of the Company as enlarged by the issue of Conversion Shares to the Subscriber, assuming there is no other change in the issued share capital of the Company between the date of

this announcement and the full conversion of the Convertible Bonds.

The Conversion Shares will in all respects rank pari passu with the Shares in issue on the date of allotment and issue of such Conversion Shares and accordingly entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant conversion date.

Redemption:

No early redemption is allowed unless with prior written consent of the holder(s) of the Convertible Bonds. At any time during a period of two years from the date of issue of the Convertible Bonds, with prior written consent of the holder(s) of the Convertible Bonds, the Company may redeem in whole or in part of the Convertible Bonds then outstanding at 100% of the outstanding principal amount of the Convertible Bonds to be redeemed.

All Convertible Bonds which have not been redeemed or converted by their maturity date will be automatically redeemed by the Company on the maturity date at a redemption amount equal to 100% of the outstanding principal amount of such Convertible Bonds.

Transferability:

The Convertible Bonds are freely transferable to any Independent Third Party(ies) after expiry of the first three (3) months' period from the date of issue of the Convertible Bonds provided that during the first three (3) months from the date of issue of the Convertible Bonds, no transfer of the Convertible Bonds can be made without prior written consent of the Company.

Security:

Upon full subscription of the Convertible Bonds, the Company shall, as soon as practicable, arrange for the provision to the Subscriber the Security for the Company's obligations and liabilities under the terms and conditions of the Convertible Bonds.

The Security shall be discharged, released, or cancelled forthwith when (i) the Subscriber or the holder(s) of the Convertible Bonds exercise the conversion rights under the Convertible Bonds and obtain allotment of the corresponding Conversion Shares; or (ii) the Company repays all principal amount under the Convertible Bonds.

Status:

The Convertible Bonds will constitute general and secured obligations of the Company.

Application for Listing

No application will be made for the listing of, permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

GENERAL MANDATE

The Conversion Shares which may fall to be issued upon the exercise of the conversion rights under the Convertible Bonds will be issued under the General Mandate which was granted to the Directors pursuant to an ordinary resolution of the Shareholders passed at the AGM subject to the limit of up to 20% of the aggregate number of Shares in issue as at the AGM (i.e. 669,760,000 Shares, representing 20% of 3,348,800,000 Shares in issue as at the date of the AGM).

Up to the date of this announcement, the General Mandate has not been utilized. The 300,000,000 Conversion Shares, to be issued upon full exercise of the conversion rights attaching to the Convertible Bonds, will utilise approximately 44.79% of the General Mandate such that a total of 369,760,000 Shares will remain unissued under the General Mandate. As the Conversion Shares are to be issued under the General Mandate, the issue of the Conversion Shares is not subject to any Shareholders' approval.

The Company has not bought back any Shares within the last 30 days prior to the date of this announcement.

REASONS FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

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 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 Board considers that the issue of the Convertible Bonds represents an opportunity to raise additional funds for the Company to cater for its future needs while broadening the capital base of the Company. Raising funds by issuing Convertible Bonds is justifiable in view of the recent market conditions. The Convertible Bonds will not result in any immediate dilution effect on the shareholding of the existing Shareholders. Furthermore, under the Subscription Agreement, issuance of the Convertible Bonds shall be made with reference to the capital need of the Company, and the Company is entitled to much flexibility in terms of the timing of issuance of the Convertible Bonds and their value.

The net proceeds arising from the issue of the Convertible Bonds, after deduction of expenses, will amount to approximately HK\$47,970,000, which shall be applied towards the Group's general working capital. The net price for each Conversion Share will be approximately HK\$0.1599.

The Board considers that the Subscription Agreement was entered into on normal commercial terms after arm's length negotiations between the Company and the Subscriber and that the terms of the Subscription Agreement (including the Conversion Price) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDINGS STRUCTURE

The table below sets out, for the purpose of illustration only, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the allotment and issue of the Conversion Shares upon exercise of the conversion rights in full under the Convertible Bonds (assuming no further Shares will be issued or repurchased and no transfer of the Convertible Bonds by the Subscriber from the date of this announcement to the date of the full conversion of the Convertible Bonds):

	(i) As at the date of this announcement		(ii) Immediately after the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights under the Convertible Bonds	
Shareholders	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Excel Time <i>(Note 1)</i>	1,194,710,296	35.68	1,194,710,296	32.74
Mr. Han Weining <i>(Note 2)</i>	20,000,000	0.60	20,000,000	0.55
the Subscriber and its ultimate beneficial owner	17,520,000	0.52	317,520,000	8.70
Public Shareholders	2,116,569,704	63.20	2,116,569,704	58.01
Total	3,348,800,000	100.00	3,648,800,000	100.00

Note 1: Excel Time is a company wholly owned by Mr. Wong Chit On, the chairman of the Company and an executive Director.

Note 2: Mr. Han Weining is the chief executive officer of the Company and an executive Director.

Share Options and Warrants

As at the date of this announcement, 52,656,230 outstanding share options have been granted by the Company under the share option scheme adopted on 22 March 2012, exercisable into the Shares at the latest adjusted exercise price of HK\$2.06 per Share. On 22 September 2014, a total of 132,000,000 unlisted warrants were issued to CITIC Capital Management Limited. The number of new Shares to be issued upon full exercise of the outstanding warrants is 196,666,667 Shares at the latest adjusted subscription price of HK\$1.98 per Share.

Save as the aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the date of this announcement.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months before the date of this announcement

GENERAL

Completion of the subscription of the Convertible Bonds is subject to the satisfaction and/or waiver of the conditions precedent in the Subscription Agreement.

As the Subscription Agreement may or may not complete, Shareholders and potential investors are urged to exercise extreme caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“AGM”	the annual general meeting of the Company held on 30 September 2016
“Board”	the board of Directors
“Bond Instrument”	the instrument to be entered into by the Company constituting the Convertible Bonds, substantially in the form of the draft set out in the schedule to the Subscription Agreement
“Business Day(s)”	any day (except a Saturday or Sunday) on which commercial banking institutions in Hong Kong are open for business generally

“Company”	Synertone Communication Corporation, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	Completion of the Subscription Agreement in accordance with the terms thereof
“Completion Date”	the third Business Day after the fulfilment of the conditions precedent as set out in the Subscription Agreement
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Conversion Price”	the initial conversion price of the Convertible Bonds, being HK\$0.16 per Conversion Share (subject to adjustments)
“Conversion Shares”	Shares fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the two year 5% coupon rate secured redeemable convertible bonds in the aggregate principal amount of HK\$48,000,000 to be constituted by the Bond Instrument and to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Director(s)”	the director(s) of the Company
“Excel Time”	Excel Time Investments Limited, a company incorporated in the British Virgin Islands with limited liability and its entire issued share capital is owned by Mr. Wong Chit On, the chairman of the Company and an executive Director, which is the controlling shareholder of the Company as at the date of the Subscription Agreement
“General Mandate”	the general mandate to allot, issue and deal with up to 669,760,000 new Shares (representing 20% of the aggregate number of the Shares in issue as at the date of the AGM) granted to the Directors by a resolution of the Shareholders passed at the AGM
“Governmental Authority”	any national, provincial, municipal or local government, administrative or regulatory body or department, court, tribunal, arbitrator or any body that exercises the function of a regulator
“Group”	the Company and its subsidiaries

“Group Company”	any company within the Group
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected person(s)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	9 June 2017, or such other date as may be agreed between the Company and the Subscriber in writing
“Mandatory Offer”	a mandatory offer as mentioned in rule 26 of the Takeovers Code
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Principal Business”	the principal business of the Group, which is (a) the provision of specialised communication systems, equipment and technologies, (b) the provision of satellite bandwidth capacity and communication services application, (c) the provision of automation control systems for industrial use, and (d) the provision of intelligent building systems for buildings
“Security”	the security by way of a charge or mortgage of the entire issued share capital of the following Group Companies: Vastsuccess Holdings Limited and its subsidiaries excluding MOX Products Pty Limited and Sense Field Group Limited and their respective subsidiaries, or such other security as may be agreed between the Company and the Subscriber
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscriber”	Baoshan International Group Limited (寶山國際集團有限公司), a company incorporated in Hong Kong with limited liability
“Subscription Agreement”	the agreement dated 23 May 2017 and entered into between the Company and the Subscriber in relation to the issue of the Convertible Bonds
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong issued by the Securities and Futures Commission of Hong Kong as amended supplemented or otherwise modified from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 23 May 2017

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.