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 2017

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 2017 together with the comparative unaudited figures for the corresponding period in 2016. 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 2017

	Note	For the six months ended 30 September 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Revenue	*4*	**40,772**	50,102
Cost of sales		**(49,185)**	(48,323)
Gross (loss)/profit		**(8,413)**	1,779
Other income	*5*	**6,674**	21,434
Other gains and losses	*5*	**1,422**	–
Fair value change on derivative financial instruments		**–**	(34,697)
Selling and distribution expenses		**(8,150)**	(7,602)
Administrative expenses		**(37,252)**	(46,655)
Research and development expenditure		**(13,518)**	(15,597)
Impairment loss of trade receivables		**(12,502)**	–
Impairment loss of goodwill		**(1,805)**	–
Loss from operations		**(73,544)**	(81,338)
Finance costs	*6(a)*	**(14,190)**	(13,714)
Share of results of an associate		**(985)**	240
Loss before taxation	*6*	**(88,719)**	(94,812)
Income tax credit	*7*	**1,856**	7,591
Loss for the period		**(86,863)**	(87,221)
Attributable to:			
Owners of the Company		**(84,403)**	(81,795)
Non-controlling interests		**(2,460)**	(5,426)
		(86,863)	(87,221)
		HK cents	*HK cents*
Loss per share	*9*		
– Basic		**(2.52)**	(2.60)
– Diluted		**(2.52)**	(2.60)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(86,863)**	(87,221)
Other comprehensive income (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	**20,991**	(15,484)
Total comprehensive loss for the period	**(65,872)**	(102,705)
Attributable to:		
Owners of the Company	**(64,149)**	(93,629)
Non-controlling interests	**(1,723)**	(9,076)
	(65,872)	(102,705)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Note	As at 30 September 2017 HK$'000 (Unaudited)	As at 31 March 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*10*	**102,372**	98,703
Prepaid lease payments		**8,681**	8,405
Intangible assets	*11*	**291,525**	314,359
Goodwill		**191,853**	185,340
Interest in an associate		**1,644**	2,538
Available-for-sale investments		**3,900**	3,900
Prepayments for acquisition of property, plant and equipment	*12*	**8,103**	8,062
		608,078	621,307
Current assets			
Inventories		**40,668**	35,867
Trade and other receivables	*12*	**255,725**	282,359
Prepaid lease payments		**203**	194
Tax recoverable		**94**	90
Cash and cash equivalents		**7,109**	17,991
		303,799	336,501
Current liabilities			
Trade and other payables	*13*	**86,558**	75,122
Bank and other borrowings		**158,841**	165,240
Finance lease payables		**187,735**	131,884
Amount due to a director		**1**	1
Current taxation		**7,062**	9,202
		440,197	381,449
Net current liabilities		**(136,398)**	(44,948)
Total assets less current liabilities		**471,680**	576,359

	Note	As at 30 September 2017 HK$'000 (Unaudited)	As at 31 March 2017 HK$'000 (Audited)
Non-current liabilities			
Finance lease payables		**215,336**	274,190
Convertible bonds		**17,164**	–
Deferred tax liabilities		**20,130**	21,293
		252,630	295,483
Net assets		**219,050**	280,876
Capital and reserves			
Share capital		**167,440**	167,440
Reserves		**38,773**	98,876
Equity attributable to owners of the Company		**206,213**	266,316
Non-controlling interests		**12,837**	14,560
Total equity		**219,050**	280,876

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

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 in Hong Kong are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Room 1012, 10th Floor, Tsim Sha Tsui Centre, 66 Mody Road, Kowloon, Hong Kong 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) design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) provision of Synertone 1 satellite bandwidth capacity and communication service application, (iii) design, development and sale of automation control systems for industrial use and (iv) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

The principal operations of the Group are conducted in the People's Republic of China (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 condensed consolidated financial statements 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 in accordance with the same accounting policies adopted in the 2017 annual financial statements.

The HKICPA has issued several amendments to Hong Kong Financial Reporting Standards ("**HKFRS**") that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the condensed consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group incurred a loss attributable to owners of the Company of approximately HK$84,403,000 during the six months ended 30 September 2017, and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$136,398,000. In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern:

(a) Convertible bonds in aggregate principal amount of HK$28,000,000 can be further issued to a subscriber under the subscription agreement signed on 23 May 2017.

(b) Certain existing property, plant and equipment can be offered as security for further financing.

(c) Under the finance lease of the exclusive right to use Synertone 1 satellite bandwidth, the Group incurs liabilities to pay the lessor amounts calculated according to the relevant agreements in the carrying value of HK$399,943,000 at the end of the reporting period, comprising HK$186,526,000 recorded under current liabilities and HK$213,417,000 recorded under non-current liabilities. The said amount of HK$186,526,000 is under dispute and negotiation with the lessor.

(d) The Group is able to generate sufficient operating cash flows to meet its current and future obligations.

Having taken into account the above, the Directors consider that the Group will have sufficient working capital to enable the Group to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period and accordingly, the condensed consolidated financial statements of the Group have been prepared on a going concern basis.

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:

Communication Technology: Provision of specialised communication systems, equipment and system technologies, including digital trunking system, Very Small Aperture Terminal ("**VSAT**") satellite system and operation integrated system.

Synertone 1 Satellite Communication:	Provision of satellite bandwidth capacity and communication service application.
Building Intelligence and Smart Home:	Provision of (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:	Provision of (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.

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 convertible bonds and 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 interest income, impairment loss of goodwill, change in fair value of derivative financial instruments, share of results of an associate and items not specifically attributed to an individual reportable segment, such as unallocated corporate expenses.

Segment revenue and results

	For the six months ended 30 September 2017				
	Communication technology	**Synertone 1 satellite communication**	**Building intelligence and smart home**	**Industrial control system**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Revenue from external customers	**2,497**	**8,065**	**22,069**	**10,104**	**42,735**
Inter-segment revenue	**–**	**–**	**(1,946)**	**(17)**	**(1,963)**
Reportable segment revenue	**2,497**	**8,065**	**20,123**	**10,087**	**40,772**
Reportable segment loss (Adjusted EBIT)	**(28,123)**	**(17,403)**	**(14,434)**	**(4,515)**	**(64,475)**
Impairment loss of goodwill					**(1,805)**
Interest income					**508**
Finance costs					**(14,190)**
Share of results of an associate					**(985)**
Unallocated corporate expenses					**(7,772)**
Consolidated loss before taxation					**(88,719)**

	For the six months ended 30 September 2016				
	Communication technology	Synertone 1 satellite communication	Building intelligence and smart home	Industrial control system	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	1,790	2,121	36,530	9,661	50,102
Inter-segment revenue	–	–	–	–	–
Reportable segment revenue	1,790	2,121	36,530	9,661	50,102
Reportable segment profit/(loss) (Adjusted EBIT)	(10,997)	(20,566)	1,768	(3,112)	(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)

Segment assets and liabilities

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Assets		
Communication technology	**258,607**	270,498
Synertone 1 satellite communication	**245,530**	268,517
Industrial control system	**167,552**	200,642
Building intelligence and smart home	**207,485**	184,768
Total segment assets	**879,174**	924,425
Available-for-sale investments	**3,900**	3,900
Unallocated corporate assets	**28,803**	29,483
Consolidated total assets	**911,877**	957,808
Liabilities		
Communication technology	**34,283**	19,983
Synertone 1 satellite communication	**412,380**	414,285
Industrial control system	**13,066**	9,771
Building intelligence and smart home	**134,090**	123,761
Total segment liabilities	**593,819**	567,800
Amount due to a director	**1**	1
Convertible bonds	**17,164**	–
Deferred tax liabilities	**20,130**	21,293
Unallocated corporate liabilities	**61,713**	87,838
Consolidated total liabilities	**692,827**	676,932

4. REVENUE

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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Specialised communication systems and technologies	**2,497**	1,790
Synertone 1 satellite system	**8,065**	2,121
Building intelligence and smart home	**20,123**	36,530
Industrial control system	**10,087**	9,661
	40,772	50,102

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income		
Interest income on bank deposits *(note a)*	**7**	20
Interest income on loan receivable *(note a)*	**501**	333
Government grants *(note b)*	**428**	9,665
Value-added taxes refund *(note c)*	**1,507**	1,823
Recovery of bad debts written off	**–**	9,444
Recovery of impaired trade receivables	**2,755**	–
Sundry income	**1,476**	149
	6,674	21,434
Other gains and losses		
Net exchange gain	**1,028**	–
Net gain on disposal of property, plant and equipment	**394**	–
	1,422	–
	8,096	21,434

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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Total interest expense on financial liabilities not at FVTPL:		
Interest expense on bank and other borrowings	**4,415**	3,332
Finance charges on finance lease payables	**9,130**	10,382
Effective interest on convertible bonds	**645**	–
	14,190	13,714

(b) Other items

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expense	**23,077**	28,083
Amortisation of intangible assets	**27,437**	28,082
Depreciation of property, plant and equipment	**5,597**	6,988
Allowance for inventories	**662**	–
Reversal of write down of inventories	**–**	(2,433)

7. INCOME TAX CREDIT

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("**EIT**") *(note d)*	**199**	–
Deferred tax		
Origination and reversal of temporary differences	**(2,055)**	(7,591)
	(1,856)	(7,591)

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), 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% (2016: 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.

8. DIVIDENDS

During the six months ended 30 September 2017, 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 2016: 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$84,403,000 (six months ended 30 September 2016: HK$81,795,000) and the weighted average number of 3,348,800,000 ordinary shares (six months ended 30 September 2016: 3,144,375,000 ordinary shares) in issue during the period.

(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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Loss attributable to owners of the Company	**(84,403)**	(81,795)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,348,800**	3,144,375
Adjustment for share options	**–**	–
Adjustment for warrants	**–**	–
Adjustment for convertible bonds	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**3,348,800**	3,144,375

For the six months ended 30 September 2017 and 2016, 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.

For the six months ended 30 September 2017, the computation of diluted loss per share did not assume the exercise of the Company's outstanding convertible bonds issued during the period as the conversion price was higher than the average market price per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2017, the Group spent approximately HK$5,361,000 (six months ended 30 September 2016: HK$35,356,000) on additions to property, plant and equipment.

11. INTANGIBLE ASSETS

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Technical know-how for digital trunking system *(note a)*	**–**	997
Administrative system costs	**76**	171
Rights to use Synertone 1 satellite bandwidth *(note b)*	**215,156**	252,185
Safe communication technologies softwares *(note c)*	**22,614**	25,504
Patents and software *(note d)*	**42,257**	50,592
Trademark *(note d)*	**2,511**	3,261
Customer relationship *(note e)*	**8,911**	11,649
	291,525	344,359

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 right to use Synertone 1 satellite bandwidth acquired by the Group and has a finite useful life of 9.5 years.

(c) It represents the technologies in relation to the provision of a safe communication environment for end users.

(d) Patents and software and trademarks represent those related to safe communication technologies, building intelligence and smart home products and industrial control system acquired by the Group through business combinations in prior years.

(e) It represents customer relationship under building intelligence and smart home business and industrial control system business acquired by the Group through business combinations in prior years.

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 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables *(notes a, b and c)*	**190,520**	201,224
Less: Allowance for doubtful debts	**(84,390)**	(71,178)
	106,130	130,046
Bills receivable	**94**	3,216
Loan receivable *(note d)*	**20,000**	20,000
Other receivables	**58,456**	57,859
Advance to suppliers	**50,938**	48,750
Prepaid value-added and other taxes	**11,194**	8,100
Other prepayments and deposits	**17,016**	22,450
	263,828	290,421
Analysed for reporting purposes as:		
Non-current assets	**8,103**	8,062
Current assets	**255,725**	282,359
	263,828	290,421

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 2017 is retention money of HK$219,000 (31 March 2017: HK$252,000) which are expected to be recovered after the warranty period.

(b) For the six months ended 30 September 2017, 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 2017: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2017: 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 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–60 days	**14,883**	17,801
61–90 days	**1,959**	8,996
91–180 days	**11,483**	31,292
181–365 days	**31,780**	6,646
Over 365 days	**130,415**	136,489
	190,520	201,224
Less: Allowance for doubtful debts	**(84,390)**	(71,178)
	106,130	130,046

(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.

13. TRADE AND OTHER PAYABLES

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**34,952**	34,017
Bill payables	**5,532**	6,616
Accrued salaries	**7,513**	4,959
Accrued expenses and other payables	**28,356**	19,899
Financial liabilities measured at amortised cost	**76,353**	65,491
Deferred government grant	**2,354**	2,253
Deposits received from customers	**4,928**	3,010
Other tax payables	**2,923**	4,368
	86,558	75,122

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

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–60 days	**7,044**	6,304
61–90 days	**1,953**	4,011
91–180 days	**4,769**	3,606
181–365 days	**9,998**	4,246
Over 365 days	**11,188**	15,850
	34,952	34,017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of integrated communication systems, and industrial and building automation solutions. The Group provides its systems and solutions products through research and development and acquisition of relevant intellectual property rights and technology know-how from third parties. The Group also provides specialised communication network design and implementation to address the specific needs of the customers.

The principal businesses of the Group include (i) design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) provision of Synertone 1 satellite bandwidth capacity and communication service application, (iii) design, development and sale of automation control systems for industrial uses and (iv) design, research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings.

The Group has commenced the upgrade for Synertone 1 satellite's gateway system since November 2015. The upgrade will increase the total bandwidth of the Synertone 1 satellite system from 12Gbps to around 20Gbps as well as the uplink and downlink transmission limits. The Synertone 1 satellite system is capable of providing customers with high throughput satellite (HTS) resources over the PRC including the coastal areas. The Group's infrastructure can provide up to 200Mbps high-speed wireless broadband connectivity to high-speed rail, ferries and shipping, road transportation and aircraft, as well as wireless broadband connectivity in remote areas with no electricity.

Due to the change of market conditions, in particular, the launch of China's own high-throughput satellite in April 2017, the management of the Group is also discussing with the grantor of the exclusive right that Vastsuccess Holdings Limited (a wholly-owned subsidiary of the Company) is using to provide the Synertone 1 satellite bandwidth capacity to service providers and end user customers in the PRC on a detailed plan as to how the parties shall perform the relevant service agreements in the future. As at the date of this announcement, no agreements have been reached with the grantor.

In the meantime, the Group has developed series of network element products which provide customers with multi-channel network access such as satellite network, 3G/4G public network, trunking private network and Wi-Fi. Data transmission rate of these network element products will be over 150Mbps, which can support high quality voice, data, video, image, positioning and other multimedia applications. These network element products are easy to deploy and use that could meet communication service requirements in aviation, railway, maritime, emergency, field survey and oil exploration, etc. The first phase of development has been completed and the new products have been put into commercial trial cases.

The Group expects that the upgraded Synertone 1 satellite system and network element products can be launched to the market later for the financial year ending 31 March 2018.

In respect of the intelligent building system business carried out by Sense Field Group Limited ("**Sense Field**") (an non-wholly-owned subsidiary of the Company) and its subsidiaries (the "**Sense Field Group**") in the mainland China, our "MOX" brand video intercom and surveillance system products faced fierce competition during the period. Some property developers adopted low end products from other local manufacturers with lower selling price instead and therefore placed less orders from the Group. In order to consolidate its market share, the Group has been expanding the sales network into regions other than the Yangtze River Delta.

FINANCIAL REVIEW

Turnover

The Group recorded a revenue of approximately HK$40.8 million for the six months ended 30 September 2017, representing a decrease of approximately HK$9.3 million or 18.6% as compared to approximately HK$50.1 million for the six months ended 30 September 2016.

During the period under review, the Group derived its revenue substantially from industrial control system and building intelligence and smart home businesses. On the other hand, the Group was carrying out the upgrade of the Synertone 1 satellite system and as a result revenue from provision of satellite communication service remained relatively low. The following table sets forth a breakdown of revenue by product category for the periods presented:

	Six months ended 30 September			
	2017		2016	
	HK$'000	***%***	*HK$'000*	*%*
Specialised communication systems and technologies	**2,497**	**6.1**	1,811	3.6
Synertone 1 satellite system	**8,065**	**19.8**	2,100	4.2
Building intelligence and smart home	**20,123**	**49.4**	36,530	72.9
Industrial control system	**10,087**	**24.7**	9,661	19.3
	40,772	**100.0**	50,102	100.0

The decrease in the Group's revenue for the six months ended 30 September 2017 was mainly attributable to the decrease in sales generated by the building intelligence and smart home business of approximately HK$16.4 million or 44.9% as compared to the corresponding period in preceding year as explained above.

Cost of sales

Cost of sales of the Group consists of costs of raw materials, labour costs, manufacturing overheads and amortization charge of intangible assets. It increased by approximately HK$0.9 million or 1.9% from approximately HK$48.3 million for the six months ended 30 September 2016 to approximately HK$49.2 million for the six months ended 30 September 2017.

Gross (loss)/profit

The Group's gross loss for the six months ended 30 September 2017 was approximately HK$8.4 million, as compared with gross profit of approximately HK$1.8 million for the six months ended 30 September 2016. Gross loss was recorded was due to the decrease in gross profit contributed by the building intelligence and smart home business in line with the decrease in its contribution to the Group's revenue.

Other income

Other income of the Group amounted to approximately HK$6.7 million for the six months ended 30 September 2017, representing a decrease of approximately HK$14.7 million or 68.7% from approximately HK$21.4 million for the six months ended 30 September 2016. The decrease was mainly due to the government grants received by the Group and recovery of bad debts written off in prior year were non-recurring in nature.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately HK$0.6 million or 7.9% from approximately HK$7.6 million for the six months ended 30 September 2016 to approximately HK$8.2 million for the six months ended 30 September 2017.

Administrative and other operating expenses

The administrative and other operating expenses of the Group decreased by approximately HK$9.4 million or 20.1% from approximately HK$46.7 million for the six months ended 30 September 2016 to approximately HK$37.3 million for the six months ended 30 September 2017, mainly attributable to reduced staff costs, legal and professional fees, and travel expenses as a result of stringent cost control measures.

Research and development expenditure

The research and development expenditure of the Group reduced by approximately HK$2.1 million or 13.5% from approximately HK$15.6 million for the six months ended 30 September 2016 to approximately HK$13.5 million for the six months ended 30 September 2017.

Impairment loss of trade receivables

During the six months ended 30 September 2017, the Group generally grant a credit period of 30 to 180 days (2016: 30 to 180 days) to its trade customers. A longer credit period of 181 to 365 days (2016: 181 to 365 days) may be extended to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.

As at 30 September 2017, trade receivables amounting to approximately HK$84.4 million (31 March 2017: HK$71.2 million) were individually determined to be impaired which were outstanding beyond its credit period and without any repayment subsequent to the end of the reporting period. Impairment loss of approximately HK$12.5 million (six months ended 30 September 2016: Nil) was recognised in profit or loss for the six months ended 30 September 2017. The Group also recovered impaired trade receivables of approximately HK$2.8 million (six months ended 30 September 2016: Nil) which was recognised as other income in profit or loss for the six months ended 30 September 2017. The Directors will take further possible actions to follow up those impaired receivables.

Impairment loss of goodwill

During the six months ended 30 September 2017, goodwill attributable to industrial control system cash generating unit amounting to approximately HK$1.8 million were determined to be impaired. The recoverable amount of the cash generating units is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and a long-term average growth rate.

The Directors considered that the goodwill attributable to industrial control system cash generating unit was impaired as the temporary suspension of Synertone 1 satellite system reduced the anticipated cash flows from the future operating synergies through the combination of the automation control system with the support of Synertone 1 satellite system.

Finance costs

The finance costs of the Group was approximately HK$14.2 million for the six months ended 30 September 2017, comprising interest on bank and other borrowings of approximately HK$4.4 million, finance charges of approximately HK$9.2 million on finance lease payables, and effective interest on convertible bonds of approximately HK$0.6 million that were issued during the current period.

Income tax

The tax credit of the Group decreased by approximately HK$5.7 million or 75.0% from approximately HK$7.6 million for the six months ended 30 September 2016 to approximately HK$1.9 million for the six months ended 30 September 2017, and was mainly attributable to decrease in deferred tax credit arising from reversal of dividend withholding tax payable.

Loss for the period

Given the foregoing factors, the Group recorded the loss attributable to owners of the Company of approximately HK$84.4 million for the six months ended 30 September 2017, while the loss attributable to owners of the Company for the corresponding period in preceding year was approximately HK$81.8 million.

Capital structure, liquidity and financial resources

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

On 23 May 2017, the Company and an independent third party (the "**Subscriber**") entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, convertible bonds in the principal amount of HK$48,000,000 in tranches (the "**Convertible Bonds**") in accordance with the written demands by the Company to be made within twelve months immediately after the completion of the Subscription Agreement which took place on 6 June 2017.

The Convertible Bonds shall mature after 2 years from the date of issue, and bear interest at 5% per annum on the outstanding principal thereof payable in arrears annually.

The initial conversion price of the Convertible Bonds is HK$0.16 per conversion share (subject to adjustments), and a maximum of 300,000,000 conversion shares will be allotted and issued upon the exercise in full of the conversion rights attaching to the Convertible Bonds based on the initial conversion price.

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 at the date of this announcement, the Company has issued Convertible Bonds in an aggregate principal amount of HK$20,000,000 upon receipt of subscription money from the Subscriber after written demands made by the Company. For further details of the issue of Convertible Bonds, please refer to the Company's announcements dated 23 May 2017, 6 June 2017, 13 June 2017 and 2 August 2017.

On 22 September 2014, the Company issued 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 share consolidation 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 2017, the warrants were not yet exercised.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, as at 30 September 2017 was approximately 0.7 (31 March 2017: approximately 0.9). Gearing ratio calculated by total borrowings (comprising bank and other borrowings, finance lease payables and liability component of convertible bonds) net of cash and cash equivalents, over total equity as at 30 September 2017 was 261% (31 March 2017: 197%).

The following table summarises the cash flows of the Group for the six months ended 30 September 2017 together with the comparative figures for the six months ended 30 September 2016:

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Net cash used in operating activities	**(566)**	(41,550)
Net cash used in investing activities	**(4,422)**	(51,743)
Net cash (used in) from financing activities	**(6,404)**	120,666

Operating activities

Net cash used in operating activities amounted to approximately HK$0.6 million for the six months ended 30 September 2017, which was decreased by approximately HK$41.0 million or 98.5% as compared with that for the corresponding period in last year. The decrease in net cash used in operating activities was mainly attributable to the decrease in operating expenses and the positive movement of net working capital during the current period.

Investing activities

Net cash used in investing activities amounted to approximately HK$4.4 million for the six months ended 30 September 2017, which was decreased by approximately HK$47.3 million or 91.5% as compared with that for the corresponding period in last year. The decrease was attributable to less capital expenditure incurred for upgrade of Synertone 1 satellite system.

Financing activities

Net cash used in financing activities amounted to approximately HK$6.4 million for the six months ended 30 September 2017, which were mainly attributable to the repayment of bank and other borrowings and finance lease payables and partly offset by the proceeds from issue of the Convertible Bonds. In contrast, net cash generated from financing activities amounted to approximately HK$120.7 million for the six months ended 30 September 2016, which were due to new share capital raised from rights issue, partly offset by the consideration paid to the then non-controlling shareholders of Sense Field for the further acquisition of 36% equity interest in Sense Field.

Bank and other borrowings

As at 30 September 2017, the Group had outstanding bank and other borrowings of approximately HK$158.8 million (31 March 2017: HK$165.2 million).

Pledge of assets

As at 30 September 2017, the Group had land use rights and property, plant and equipment in aggregate carrying value of approximately HK$54.1 million (31 March 2017: HK$53.7 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent liabilities

As at 30 September 2017, the Group had no material contingent liabilities.

Profit guarantee arising from acquisition of Sense Field

On 29 June 2016, the Group entered into a conditional agreement (the "**Further Acquisition Agreement**") with the three then shareholders of Sense Field ("**Vendors**") for the further acquisition of 36% equity interest in Sense Field for a consideration of HK$130 million to be satisfied by cash (the "**Further Acquisition**"). The Further Acquisition has been approved by the Shareholders at an extraordinary general meeting held on 16 January 2017 and completed on 30 March 2017.

Pursuant to the Further Acquisition Agreement, consideration of HK$117 million has been paid in cash to the Vendors during the year ended 31 March 2017. The remaining HK$13 million (the "**Retention Funds**") shall be paid by the Group to the Vendors within 14 business days after the consolidated audited accounts of the Sense Field Group for the year ended 31 December 2016 become available, provided that the earnings before interest, tax, depreciation and amortisation ("**EBITDA**") of the Sense Field Group for the year ended 31 December 2016 is not less than HK$40 million (the "**First-year Target**"). Such amount has not been paid as the First-year Target was not met.

In accordance with the Further Acquisition Agreement, in the event that the First-year Target cannot be met, the Group shall pay to the Vendors within 14 business days after the consolidated audited accounts of the Sense Field Group for the year ending 31 December 2017 become available an amount equal to:

(a) the Retention Funds, when the aggregate EBITDA for the two years ending 31 December 2017 exceeds HK$95 million (the "**Two-year Target**"); or

(b) the difference between the Retention Funds and the shortfall, calculated by the Two-year Target minus the aggregate EBITDA for the two years ending 31 December 2017 (the "**Shortfall**"), when the Two-year Target cannot be met. If the Retention Funds is not sufficient to cover the Shortfall, the Group shall not be required to pay any amount to the Vendors and the Vendors shall indemnify the Group an amount equivalent to the difference between the Retention Funds and the Shortfall.

No provision for the above profit guarantee arrangement is recognised at the end of the reporting period as the Directors considered that taking into account the unaudited consolidated management accounts for the nine months ended 30 September 2017 and the profit forecast for the three months ending 31 December 2017 prepared by management of the Sense Field Group, the Two-year Target is unlikely to be met and the probability that the Retention Funds being sufficient to cover the Shortfall is remote.

Significant capital expenditure for the year

Save as disclosed above, the Group has no significant capital expenditure commitments as at 30 September 2017.

Risk of Foreign Exchange Fluctuations

Substantially all transactions of the Group are denominated in RMB, United States dollars and Hong Kong dollars and most of the bank deposits are in RMB and Hong Kong dollars to minimise foreign exchange exposure. Despite the fluctuation of the exchange rates of RMB against United State dollars and Hong Kong dollars during the period, the Directors expect that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure as at 30 September 2017.

Material acquisition and disposal

For the six months ended 30 September 2017, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and remuneration policy

As at 30 September 2017, the Group had 291 employees (31 March 2017: 449). For the six months ended 30 September 2017, the staff costs of the Group amounted to approximately HK$23.0 million, representing a decrease of approximately HK$3.7 million or 13.9% as compared to HK$26.7 million for the corresponding period last year, mainly due to the decrease in headcount attributable to the specialised communication system and intelligent building system businesses.

The Group's employee remuneration policy is determined based on a number of factors such as individual performance, experience and prevailing industry practices. Compensation policies and packages of employees are being reviewed on a yearly basis. In addition to basic salary, performance related remuneration 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. As at 30 September 2017, the Company had 52,607,678 share options outstanding under the share option scheme.

The Group has been committing resources in continuing education and training programmes for management staff and other employees in order to upgrade their skills and knowledge. These training courses include internal courses run by the management of the Group and external courses provided by professional trainers. They range from technical training for production staff to financial and administrative trainings for management staff.

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 2017.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2017 (six months ended 30 September 2016: nil).

CORPORATE GOVERNANCE PRACTICES

The Directors consider that throughout the six months ended 30 September 2017, 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 6 September 2017 (the "**2017 AGM**") due to another important business meeting. Mr. Han Weining (executive Director and chief executive officer of the Company) was appointed as the chairman of the 2017 AGM to answer and address questions raised by the Shareholders at the 2017 AGM.

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 Directors in their dealings in the Company's securities. Having made specific enquiry to all Directors, all Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 September 2017.

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, namely 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 2017 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 2017 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, 29 November 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.