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**SYNERTONE**

**協同通信集團有限公司**

**Synertone Communication Corporation**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1613)**

**DISCLOSEABLE TRANSACTION**  
**(1) THE SETTLEMENT AGREEMENT**  
**(2) DISPOSAL OF THE UPGRADED HUB SYSTEM**

**THE SETTLEMENT AGREEMENT**

The Board wishes to announce that on 12 October 2018 (after morning trading hours), VAST, the Company and IPSTARCO entered into the Settlement Agreement whereby it was agreed, inter alia, that (i) the Definitive Agreement, the Revenue Sharing Agreement and the Assignment Agreement were terminated as of 4 December 2017; (ii) US\$5 million (subject to adjustment) out of the total Outstanding Amount of US\$6,277,419.54 shall be settled by way of the Transfer; (iii) the balance of the Outstanding Amount shall be settled by way of cash; and (iv) upon full settlement of the Outstanding Amount, the Company shall be automatically released and discharged from its liabilities and obligations under the Corporate Guarantee.

## **THE TRANSFER AGREEMENT**

On 12 October 2018 (after morning trading hours), VAST and IPSTARCO entered into the Transfer Agreement, pursuant to which VAST has agreed to sell, and IPSTARCO has agreed to acquire the Upgraded Hub System at the Consideration of US\$5 million (subject to adjustment).

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable ratios set out in Rule 14.07 of the Listing Rules in respect of the Transfer are more than 5% and all of such ratios are below 25%, the Transfer constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Reference is made to (i) the announcements of the Company dated 15 April 2013 and 13 September 2013 and the circular of the Company dated 26 September 2013 (the “**Circular**”) in relation to the Acquisition and the entering into of the Definitive Agreement, the Revenue Sharing Agreement and the Assignment Agreement by VAST; and (ii) the announcement of the Company dated 22 December 2017 in relation to the receipt of a notice of termination from IPSTARCO by VAST (the “**Announcement**”).

## **THE SETTLEMENT AGREEMENT**

As disclosed in the Announcement:

1. There was a dispute between VAST and IPSTARCO in respect of the fees payable by VAST to ISPTARCO under the Definitive Agreement;

2. IPSTARCO had, through its solicitors, issued a notice of termination to VAST. According to the said notice:
  - (a) IPSTARCO has terminated the Definitive Agreement pursuant to its terms due to the failure of VAST to, inter alia, make the required payments under the Definitive Agreement; and
  - (b) In light of the termination of the Definitive Agreement, the Revenue Sharing Agreement and the Assignment Agreement are also terminated in accordance with their respective terms;
3. Pending discussion between VAST and IPSTARCO, IPSTARCO would maintain the provision of the Bandwidth Resources to VAST subject to certain conditions.

As a result of further discussions and negotiations between the parties, on 12 October 2018, (after morning trading hours), VAST, the Company and IPSTARCO entered into the Settlement Agreement. The principal terms of the Settlement Agreement are as follows:

1. It is mutually agreed by the parties to the Settlement Agreement that the Definitive Agreement, the Revenue Sharing Agreement and the Assignment Agreement are terminated as of 4 December 2017.
2. IPSTARCO shall waive any outstanding fees payable by VAST to IPSTARCO pursuant to the Definitive Agreement under the 5th year of the Service Period.
3. The remaining Outstanding Amount of US\$6,277,419.54 (which consists of (i) the outstanding fees payable by VAST to IPSTARCO pursuant to the Definitive Agreement under the 4th year of the Service Period; and (ii) the outstanding revenue share payable by VAST to IPSTARCO pursuant to the Revenue Sharing Agreement) shall be settled in accordance with the following:
  - (a) US\$5 million (subject to adjustment as set out in the section headed “Consideration, adjustment and completion” below) out of the Outstanding Amount shall be settled by way of the Transfer; and
  - (b) The balance of the Outstanding Amount shall be paid by VAST to IPSTARCO in cash within 45 days after completion of the Transfer.

4. If the Transfer Agreement is terminated pursuant to its clause and the Transfer cannot be completed, then VAST shall settle the whole of Outstanding Amount in cash within 45 days after the date of termination of the Transfer Agreement.
5. The completion of the Transfer and the full payment of the balance of the Outstanding Amount, or alternatively, the full payment of the whole of the Outstanding Amount in accordance with paragraph 4 above (including any penalty interest (at the highest rate permitted by law) accrued in the event of any payment that is not made within the timing specified in paragraphs 3 and 4 above) shall be full and final settlement of all claims, demands and actions which IPSTARCO has or may have against VAST and/or the Company in connection with, arising out of or relating to the Definitive Agreement and the Revenue Sharing Agreement, and IPSTARCO shall irrevocably and unconditionally release and discharge VAST and/or the Company from such claims, demands and actions.
6. Upon completion of the Transfer and the full payment of the balance of the Outstanding Amount, or alternatively, the full payment of the whole of the Outstanding Amount in accordance with paragraph 4 above (including any penalty interest (at the highest rate permitted by law) accrued in the event of any payment that is not made within the timing specified in paragraphs 3 and 4 above), the Company shall be automatically released and discharged from its liabilities and obligations under the Corporate Guarantee.
7. It is the intention of VAST and IPSTARCO to continue to cooperate in respect of the provision of the Bandwidth Resources in the PRC. The parties will discuss in good faith and use their best endeavours to reach a new agreement in respect of the provision of the Bandwidth Resources by IPSTARCO to VAST. For the avoidance of doubt, there is no obligation on either party to enter into such a new agreement.

## **THE TRANSFER AGREEMENT**

The principal terms of the Transfer Agreement are as follows:

**Date** : 12 October 2018

**Parties** : (1) VAST (as seller)  
(2) IPSTARCO (as purchaser)

IPSTARCO is a company established under the laws of British Virgin Islands and a subsidiary of Thaicom, the issued shares of which are listed on The Stock Exchange of Thailand. IPSTARCO has been operating the IPSTAR Business in the Asia-Pacific region.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, IPSTARCO and its associates are independent of and not connected with the Company and its connected persons as defined in the Listing Rules as at the date of this announcement.

### **Subject matter**

Pursuant to the terms of the Transfer Agreement, IPSTARCO has agreed to acquire from VAST, and VAST has agreed to sell to IPSTARCO the Upgraded Hub System, subject to the terms and conditions under the Transfer Agreement.

The Upgraded Hub System comprises the hub and components purchased and installed by VAST at the Gateways in Beijing, Guangzhou, and Shanghai for upgrading the Gateways system by increasing the total bandwidth as well as the uplink and downlink transmission.

The book value of the Upgraded Hub System as shown in the unaudited consolidated management accounts of the Group as at 31 August 2018 was approximately HK\$35.5 million.

## **Consideration, adjustment and completion**

Subject to the adjustment mechanism below, the Consideration for the sale and purchase of the Upgraded Hub System shall be US\$5 million, which shall be satisfied by offsetting the Consideration against the Outstanding Amount payable by VAST to IPSTARCO under the Settlement Agreement:

1. Within 30 days from the date of the Transfer Agreement, IPSTARCO shall send its team to the Gateways in Beijing, Guangzhou, and Shanghai to inspect whether or not the Upgraded Hub System is functioning properly. If, after the inspection, IPSTARCO determines that the Upgraded Hub System is functioning properly, IPSTARCO shall issue a written notice to VAST confirming that the Upgraded Hub System is accepted, and in such case the Consideration shall remain as US\$5 million.
2. If, after the inspection, IPSTARCO determines that the Upgraded Hub System is not functioning properly, IPSTARCO shall issue a written notice to VAST and in such event, IPSTARCO and VAST shall further discuss and determine an adjusted Consideration based on the actual conditions of the Upgraded Hub System within 30 days from the date of the written notice sent by IPSTARCO to VAST, and:
  - (a) If VAST and IPSTARCO are able to agree on the adjusted Consideration within the above 30-day period, the Upgraded Hub System shall be deemed to be accepted by IPSTARCO on the date which the adjusted Consideration is concluded by the parties in writing; or
  - (b) If VAST and IPSTARCO are not able to agree on the adjusted Consideration within the above 30-day period, the Transfer Agreement will be terminated automatically.
3. In the event that IPSTARCO does not issue the requisite written notice according to paragraphs 1 or 2 above within 14 days after its inspection of the Upgraded Hub System, IPSTARCO shall be deemed to have accepted the Upgraded Hub System.
4. Completion of the Transfer shall take place upon the acceptance by IPSTARCO pursuant to paragraphs 1, 2(a) or 3 above, as the case may be.

The Consideration was determined after arm's length negotiations between VAST and IPSTARCO after taking into account (i) the book value of the Upgraded Hub System; (ii) the resources that the Group had put to install the Upgraded Hub System at the Gateways and develop softwares for operating the Upgraded Hub System; and (iii) the reasons for the Settlement Agreement and the Transfer Agreement as described under the section headed "Reasons for and Benefits of the Settlement Agreement and the Transfer Agreement" below.

## **FINANCIAL EFFECT OF THE SETTLEMENT AGREEMENT AND DISPOSAL OF THE UPGRADED HUB SYSTEM**

The Group accounted for the contractual right granted under the Definitive Agreement as a finance lease arrangement since its inception in 2013, where the Group recognised the exclusive right to use the satellite bandwidth as an intangible asset and the contractual Bandwidth Resources fees payable to IPSTARCO over the Service Period as finance lease payables in the Group's consolidated statement of financial position.

Upon full settlement of the Outstanding Amount in accordance with the Settlement Agreement, the Group will be irrevocably and unconditionally discharged from all claims arising from the Definitive Agreement and the Revenue Sharing Agreement. Based on the Group's unaudited consolidated management accounts as at 31 August 2018, for illustrative purpose, an estimated gain on termination of the finance lease arrangement of approximately HK\$369.6 million will be recognised in profit or loss, being the carrying value of finance lease payables in respect of the Bandwidth Resources fees payable from the fifth year of the Service Period and onwards from which the Group will be irrevocably and unconditionally discharged. In addition, there will be no impact to the Group's profit or loss arising from the de-recognition of the intangible asset as it has been carried at zero amount due to full impairment made in the preceding financial year.

Besides, the Group has accounted for the Upgraded Hub System as an item of property, plant and equipment in its consolidated statement of financial position. Based on the Group's unaudited consolidated management accounts as at 31 August 2018, for illustrative purpose, an estimated gain on disposal of the Upgraded Hub System of approximately HK\$3.7 million (being the difference between (i) the Consideration of approximately HK\$39.2 million (equivalent to US\$5 million, assuming that there is no adjustment to the Consideration); and (ii) the carrying value of approximately HK\$35.5 million of the Upgraded Hub System) will be recognised in the Group's profit or loss.

Based on the above, the total effect of these adjustments will bring to an estimated increase of the Group's net assets by approximately HK\$373.3 million.

Shareholders should note that the actual financial effect as a result of the full settlement of the Outstanding Amount and the Transfer to be recorded by the Group is subject to final audit to be performed by the auditors of the Company.

## **REASONS FOR AND BENEFITS OF THE SETTLEMENT AGREEMENT AND THE TRANSFER AGREEMENT**

The Group is principally engaged in (i) the 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.

Financial performance of the Synertone 1 satellite business had not been meeting expectation of the management. It recorded losses for three consecutive financial years despite the efforts and investments made by Group on upgrading the Gateways system. As disclosed in the Announcement, the launch of PRC's own high-throughput satellite in April 2017 has led to more intense competition in the bandwidth service market of the PRC. Therefore, the Directors consider that it is no longer in the interests of the Company to operate the Synertone 1 satellite business according to the existing business model under the Definitive Agreement, Revenue Sharing Agreement and Assignment Agreement, and in this connection, the Directors intend to realize the investment in the Upgraded Hub System also. Nevertheless, as mentioned in the section headed "The Settlement Agreement" above, VAST and IPSTARCO will discuss on further potential cooperation and a new agreement may be reached in the future.

Based on the above, the Directors are of the view that the terms of the Settlement Agreement and the Transfer Agreement, which were arrived at after arm's length negotiations between the parties thereof, are fair and reasonable, and the entering into of the Settlement Agreement and the Transfer Agreement are in the interests of the Company and the Shareholders as a whole.



## **LISTING RULES IMPLICATIONS**

As one or more of the applicable ratios set out in Rule 14.07 of the Listing Rules in respect of the Transfer are more than 5% and all of such ratios are below 25%, the Transfer constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As completion of the Transfer is subject to the condition that IPSTARCO is satisfied that the Upgraded Hub System is functioning properly (and if not, an adjusted Consideration can be agreed between VAST and IPSTARCO), the Transfer may or may not proceed to completion. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

## **DEFINITIONS**

Unless the context otherwise requires, the following expressions used in this announcement have the following meanings:

“Acquisition”	the acquisition of the Bandwidth Resources by VAST from IPSTARCO pursuant to the Definitive Agreement
“Assignment”	the assignment by IPSTARCO to VAST of all its rights and obligations under the ICA Documents
“Assignment Agreement”	the assignment agreement dated 30 December 2012 entered into between CTS, IPSTARCO and VAST in relation to the Assignment
“associates”	has the meaning ascribed to it in the Listing Rules

“Bandwidth Capacity”	the total and all bandwidth capacity on the Satellite for serving the Territory from time to time, which is 7,598.5 MHz in total, as provided by and through the relevant transponder equipment and any shared redundant equipment for transmitting and/or receiving the frequency bands in the spot, augment, shaped, and broadcast beams of the Satellite in the Territory
“Bandwidth Capacity Service”	the service of providing and the exclusive right to use the Bandwidth Capacity for the purpose of VAST’s signal transmission, which may be transmitted by VAST or its subcontractor or the like, or its customers/partners
“Bandwidth Resources”	the Bandwidth Capacity, the Bandwidth Capacity Service and the Right To Use for the transmission of broadband Internet access and other applications
“Board”	the board of Directors
“Company”	Synertone Communication Corporation, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 1613)
“Consideration”	the consideration for the Transfer
“Corporate Guarantee”	the corporate guarantee given by the Company in favour of IPSTARCO as security for the due and punctual performance by VAST of all its obligations under the Definitive Agreement
“CT”	中國電信集團公司(China Telecommunications Corporation), a company established under the laws of PRC

“CTS”	中國電信集團衛星通信有限公司 (China Telecom Satellite Communications Limited), a company established under the laws of PRC and a wholly-owned subsidiary of CT
“DA Supplemental Agreement”	the supplemental agreement to the Definitive Agreement dated 13 September 2013 entered into between VAST and IPSTARCO to vary certain terms of and incorporate certain new terms to the Definitive Agreement, details of which were disclosed in the announcement of the Company dated 13 September 2013
“Definitive Agreement”	the definitive agreement dated 29 March 2013 as amended and supplemented by a supplemental agreement dated 10 April 2013 and the DA Supplemental Agreement entered into between VAST and IPSTARCO to set out the terms and conditions with respect to the Acquisition
“Director(s)”	the director(s) of the Company
“Gateways”	the IPSTAR gateways in Beijing, Shanghai and Guangzhou used to access the Territory Payload
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICA Documents”	a series of documents or agreements entered into between Thaicom, IPSTARCO, China Satellite Communications Corporation and/or CTS in 2009, 2010 and 2012 in relation to IPSTAR service provided in the Territory, pursuant to which CTS and IPSTARCO have confirmed a series of rights and obligations
“IPSTAR” or “Satellite”	THAICOM-4 satellite, commercially known as IPSTAR-1 located at 119.5 degree east orbital position

“IPSTARCO”	IPSTAR Company Limited, a company established under the laws of British Virgin Islands and a subsidiary of Thaicom
“IPSTAR Business”	the operation of the Satellite ground system for providing broadband Internet access services and other applications
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Outstanding Amount”	the total outstanding amount of US\$6,277,419.54 (as agreed under the Settlement Agreement) that is payable by VAST to IPSTARCO pursuant to the Definitive Agreement and the Revenue Sharing Agreement
“PRC”	the People’s Republic of China which, for the purpose of this announcement and for geographical reference only, excludes Hong Kong, Macau Special Administration Region and Taiwan
“Revenue Sharing Agreement”	the revenue sharing agreement dated 29 March 2013 as amended and supplemented by the RS Supplemental Agreement entered into between VAST and IPSTARCO to set out the revenue sharing arrangement derived by VAST from the provision of the Bandwidth Capacity and the Right to Use
“Right to Use”	exclusive right to use the Gateways
“RS Supplemental Agreement”	the supplemental agreement to the Revenue Sharing Agreement dated 13 September 2013 entered into between VAST and IPSTARCO to vary certain terms of the Revenue Sharing Agreement, details of which were disclosed in the announcement of the Company dated 13 September 2013

“Service Period”	the period of at least nine and a half years commencing from 16 October 2013, being the date on which the commencement of the provision of the Bandwidth Resources under the Definitive Agreement
“Settlement Agreement”	the settlement agreement dated 12 October 2018 entered into between VAST, the Company and IPSTARCO in relation to, inter alia, the settlement of the Outstanding Amount
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Territory”	the PRC’s geographic territory (including Hong Kong and Macau Special Administration Region but excluding Taiwan region)
“Territory Payload”	all the capacity operated by IPSTARCO on the Satellite which covered locations within the Territory
“Thaicom”	Thaicom Public Company Limited, the issued shares of which are listed on The Stock Exchange of Thailand
“Transfer”	the proposed transfer of the ownership of the Upgraded Hub System by VAST to IPSTARCO in accordance with the terms of the Transfer Agreement and the Settlement Agreement
“Transfer Agreement”	the transfer agreement dated 12 October 2018 entered into between VAST and IPSTARCO in relation to the Transfer

“Upgraded Hub System”	the hub and components installed at the Gateways and to be transferred by VAST to IPSTARCO pursuant and subject to the terms and conditions of the Transfer Agreement
“VAST”	Vastsuccess Holdings Limited, a company established under the laws of British Virgin Islands and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

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

Hong Kong, 12 October 2018

*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.*