



協同通信集團有限公司
Synertone Communication Corporation

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1613

2013
INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chit On (*Chairman*)

Mr. Lu Zhijie

Mr. Han Weining

Mr. Zhang Jinbing

Independent Non-executive Directors

Mr. Lam Ying Hung Andy

Mr. Hu Yunlin

Mr. Cai Youliang (appointed on
28 June 2013 with effect on 2 July 2013)

Mr. Wu Xiaowen (resigned on 14 May 2013)

BOARD COMMITTEES

Audit Committee

Mr. Lam Ying Hung Andy (*Chairman*)

Mr. Hu Yunlin

Mr. Cai Youliang (appointed on
28 June 2013 with effect on 2 July 2013)

Mr. Wu Xiaowen (resigned on 14 May 2013)

Remuneration Committee

Mr. Hu Yunlin (*Chairman*)

Mr. Lam Ying Hung Andy

Mr. Cai Youliang (appointed on
28 June 2013 with effect on 2 July 2013)

Mr. Wu Xiaowen (resigned on 14 May 2013)

Nomination Committee

Mr. Cai Youliang (*Chairman*) (appointed on
28 June 2013 and effect on 2 July 2013)

Mr. Lam Ying Hung Andy

Mr. Hu Yunlin

Mr. Wu Xiaowen (resigned on 14 May 2013)

COMPANY SECRETARY

Ms. Lam Mei Shan, *CPA, AICPA*

AUTHORISED REPRESENTATIVES

Mr. Wong Chit On

Mr. Lam Ying Hung Andy (alternate to
Mr. Wong Chit On)

Ms. Lam Mei Shan

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Block B, Teng Bang Building

1st Qingshuihe Road

Luohu District

Shenzhen

China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1301, 13th Floor

Henan Building

90 Jaffe Road

Wanchai, Hong Kong

CORPORATE INFORMATION *(Continued)*

PRINCIPAL BANKERS

Hong Kong

The Hongkong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

PRC

Bank of China Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISER AS TO HONG KONG LAW

Alvan Liu & Partners
Rooms 701-704, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

COMPLIANCE ADVISOR

Messis Capital Limited (appointed on 1 December 2013)
Room 1606, 16/F, Tower 2
Admiralty Centre
18 Harcourt Road
Hong Kong

CLC International Limited (resigned on 30 November 2013)
Suites 4703A-04
Two Exchange Square
8 Connaught Place
Central
Hong Kong

AUDITOR

CCIF CPA Limited
Certified Public Accountants
9/F, Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

CORPORATE WEBSITE

www.synertone.net

STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

1613

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 September 2013

	Note	For the six months ended 30 September	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	5	84,736	49,346
Cost of sales		(29,902)	(22,612)
Gross profit		54,834	26,734
Other revenue	6	14,481	27,803
Selling and distribution expenses		(5,103)	(4,920)
Administrative expenses		(15,407)	(16,281)
Research and development expenditure	7(b)	(6,265)	(3,769)
Profit from operations		42,540	29,567
Finance costs	7(a)	(1,296)	–
Profit before taxation	7	41,244	29,567
Income tax	8	(8,626)	(8,056)
Profit for the period attributable to owners of the Company		32,618	21,511
		HK(cents)	HK(cents)
Earnings per share	10		
– Basic		2.72	1.84
– Diluted		2.72	1.84

The notes from pages 10 to 31 form part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 September 2013

	<i>Note</i>	For the six months ended 30 September	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Profit for the period		32,618	21,511
Other comprehensive income/(loss) for the period (net of tax):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of PRC subsidiaries (net of tax HK\$nil (2012: HK\$nil))		1,604	(831)
Total comprehensive income for the period attributable to owners of the Company		34,222	20,680

The notes from pages 10 to 31 form part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2013

	<i>Note</i>	At 30 September 2013 HK\$'000 (Unaudited)	At 31 March 2013 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	65,526	51,766
Intangible assets	12	9,669	12,231
Deposit paid for acquisition of intangible assets	13	4,680	4,680
		79,875	68,677
Current assets			
Inventories		22,164	19,590
Trade and other receivables	14	170,009	119,919
Cash and cash equivalents		56,684	124,549
		248,857	264,058
Current liabilities			
Trade and other payables	15	24,731	24,223
Amount due to a director		1	241
Current taxation		20,554	20,214
		(45,286)	(44,678)
Net current assets		203,571	219,380
Total assets less current liabilities		283,446	288,057
Non-current liabilities			
Deferred tax liabilities		(7,038)	(9,871)
Net assets		276,408	278,186

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

as at 30 September 2013

		At 30 September 2013 HK\$'000 (Unaudited)	At 31 March 2013 HK\$'000 (Audited)
	<i>Note</i>		
Capital and reserves			
Share capital	16	12,000	12,000
Reserves		264,408	266,186
Total equity attributable to owners of the Company		276,408	278,186

Approved and authorised for issue by the board of directors on 29 November 2013

Wong Chit On

Lu Zhijie

The notes from pages 10 to 31 form part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2013

	Attributable to owners of the Company							
	Note	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2013		12,000	106,758	(90)	23,843	25,399	110,276	278,186
Comprehensive income								
Profit for the period		-	-	-	-	-	32,618	32,618
Other comprehensive income								
Exchange differences arising on translation of financial statements of PRC subsidiaries		-	-	-	-	1,604	-	1,604
Total comprehensive income for the period		-	-	-	-	1,604	32,618	34,222
Transaction with owners								
Dividend paid	9(b)	-	-	-	-	-	(36,000)	(36,000)
Total transactions with owners		-	-	-	-	-	(36,000)	(36,000)
At 30 September 2013		12,000	106,758	(90)	23,843	27,003	106,894	276,408
At 1 April 2012		9,000	25,663	(90)	17,978	23,395	128,134	204,080
Comprehensive income								
Profit for the period		-	-	-	-	-	21,511	21,511
Other comprehensive loss								
Exchange differences arising on translation of financial statements of PRC subsidiaries		-	-	-	-	(831)	-	(831)
Total comprehensive income for the period		-	-	-	-	(831)	21,511	20,680
Transaction with owners								
New issue of shares by way of placing and public offering	16	3,000	96,000	-	-	-	-	99,000
Transaction costs attributable to issue of new shares	16	-	(14,905)	-	-	-	-	(14,905)
Dividend paid	9(b)	-	-	-	-	-	(48,000)	(48,000)
Total transactions with owners		3,000	81,095	-	-	-	(48,000)	36,095
At 30 September 2012		12,000	106,758	(90)	17,978	22,564	101,645	260,855

The notes from pages 10 to 31 form part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 September 2013

	For the six months ended 30 September	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Net cash (used in)/generated from operating activities	(17,847)	34,128
Net cash used in investing activities	(13,748)	(20,756)
Net cash (used in)/generated from financing activities	(37,296)	40,624
Net (decrease)/increase in cash and cash equivalents for the period	(68,891)	53,996
Cash and cash equivalents at beginning of the period	124,549	37,232
Effect of changes in foreign exchange rate	1,026	(1,040)
Cash and cash equivalents at end of the period	56,684	90,188

The notes from pages 10 to 31 form part of these condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 September 2013

1. GENERAL

Synertone Communication Corporation (the “Company”) was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company’s registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Block B, Teng Bang Building, 1st Qingshuihe Road, Luohu District, Shenzhen, the People’s Republic of China (the “PRC”) respectively.

On 18 April 2012, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies and providing a total solution of specialised communication system, including digital trunking system, Very Small Aperture Terminal (“VSAT”) satellite system and operation integrated system.

The principal operations of the Group are conducted in the PRC. The condensed consolidated interim financial information are presented in Hong Kong dollars (“HK\$”), which is the functional currency of the Company, while the functional currency of the subsidiaries incorporated in the PRC is Renminbi (“RMB”). The directors consider that presenting condensed consolidated interim financial information 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\$.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

2. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). It was authorised for issue on 29 November 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except where the changes in accounting policies are required by accounting standards which came into effect during the interim period. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. This interim financial report contains condensed consolidated interim financial information and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 2013. The condensed consolidated interim financial information and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 March 2013 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for the financial year but is derived from those financial statements. The statutory financial statements for the year ended 31 March 2013 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 28 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Revised HKAS 19	Employee Benefits
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income

The Group has not early applied the new or revised standards and interpretations that have been issued but are not yet effective for the current accounting period.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

Revised HKAS 19, Employee Benefits

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not. The application of this revised standard does not have any material impact on the financial position and the financial results of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Annual Improvements to HKFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets and liabilities in note 4.

4. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On adoption of HKFRS 8, Operating segments, and in a manner consistent with the way in which information is reported internally to the Chairman, 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:

Digital trunking system:

Digital trunking system is designed to meet the demand from governmental departments or agencies, public utilities institutions and business enterprises for public safety and emergency communication, mainly consists of CITONE digital trunking radio communication system, WITONE digital trunking radio communication system and DITONE digital trunking radio communication system. Based on the specifications of customers, the Group offers a range of core components forming digital trunking system which can be operated under direct network, transmission network, single base station trunking network, single area multiple base stations network and multi-area network. Different modes of digital trunking system can be set up and operated with various combinations of components addressing particular needs of users.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

4. SEGMENT REPORTING *(Continued)*

VSAT satellite system:

VSAT satellite system is a component of the specialised communication system. VSAT satellite antenna is a major component of the VSAT satellite system which enables and maintains communication under in-motion mode. With different models of VSAT satellite antenna, the Group offers different VSAT satellite systems including (a) VSAT low speed satellite transmission system; (b) VSAT high speed dynamic digital satellite system and (c) VSAT high speed stationary digital satellite system.

Systems technologies:

This segment developed a wide variety of technical know-how and technology relating to specialised communication system. The customers (a) paid a licensing fees to the Group for the use of certain technical know-how and technology; and (b) paid commissions to the Group to conduct research and development and to design and develop particular technical know-how to meet their specifications and requirements and needs.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

4. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's Chairman monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the production and sales activities of the individual segments with the exception of other corporate liabilities which are unallocated to an individual reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is adjusted earnings before interest and taxes ("Adjusted EBIT"). To arrive at adjusted earnings before interest and taxes, the Group's profits are further adjusted for items not specifically attributed to an individual reportable segment, such as interest income, finance costs, income tax and other unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

for the six months ended 30 September 2013

4. SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

	Digital trunking system		VSAT satellite system		Systems technologies		Others		Total	
					For the six months ended 30 September					
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers (note)	52,169	43,822	20,351	5,472	11,924	-	292	52	84,736	49,346
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Reportable segment revenue	52,169	43,822	20,351	5,472	11,924	-	292	52	84,736	49,346
Reportable segment profit (adjusted EBIT)	33,040	29,914	5,532	944	7,323	-	(38)	2	45,857	30,860
Interest income	443	95	91	4	120	-	-	-	654	99
Finance costs	(878)	-	(180)	-	(238)	-	-	-	(1,296)	-
Amortisation of intangible assets	(2,500)	(2,357)	(70)	(422)	(92)	-	-	-	(2,662)	(2,779)
Depreciation of property, plant and equipment	(962)	(1,440)	(197)	(66)	(260)	-	-	-	(1,419)	(1,506)
Write down of obsolescent inventories	(925)	-	-	-	-	-	-	-	(925)	-
Income tax	(5,844)	(7,705)	(1,197)	(350)	(1,585)	-	-	(1)	(8,626)	(8,056)

	Digital trunking system		VSAT satellite system		Systems technologies		Others		Total	
	30	31	30	31	30	31	30	31	30	31
	September	March	September	March	September	March	September	March	September	March
	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Reportable segment assets	220,830	320,667	67,730	7,171	35,241	-	31	-	323,832	327,838
Reportable segment liabilities	(36,213)	(51,706)	(8,605)	(2,037)	(7,261)	-	-	(3)	(52,079)	(53,746)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

4. SEGMENT REPORTING *(Continued)*

(b) Reconciliation of reportable segment revenues, profit or loss

	For the six months ended	
	30 September	
	2013	2012
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	84,736	49,346
Elimination of inter-segment revenue	–	–
Consolidated revenue	84,736	49,346
Profit		
Reportable segment profit	45,857	30,860
Elimination of inter-segment profits	–	–
Reportable segment profit derived from		
Group's external customers	45,857	30,860
Interest income	656	104
Finance costs	(1,296)	–
Unallocated corporate expenses	(3,973)	(1,397)
Consolidated profit before taxation	41,244	29,567

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

5. TURNOVER

Turnover represents the sales value of goods supplied to customers which excludes value-added and business taxes, and is after deduction of any goods returns and trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	For the six months ended	
	30 September	
	2013	2012
	HK\$'000	HK\$'000
Digital trunking system	52,169	43,822
VSAT satellite system	20,351	5,472
System technologies	11,924	–
Other accessory parts and components	292	52
	84,736	49,346

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

6. OTHER REVENUE

	For the six months ended	
	2013	2012
	HK\$'000	HK\$'000
Bank interest income <i>(note a)</i>	656	104
Government grants <i>(note b)</i>	7,511	978
Value-added tax refund <i>(note c)</i>	6,294	26,629
Sundry income	20	92
	14,481	27,803

Notes:

- (a) Bank interest income from bank deposits represented the total interest income on financial assets not at fair value through profit or loss.
- (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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	For the six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on other borrowings wholly repayable within five years	1,296	–

(b) Other items

	For the six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Auditor's remuneration	130	120
Cost of inventories	29,902	22,612
Amortisation of intangible assets	2,662	2,779
Depreciation of property, plant and equipment	1,419	1,506
Operating lease charges in respect of leased property	2,009	3,254
Research and development expenditure	6,265	3,769

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

8. INCOME TAX

	For the six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Current tax		
PRC Enterprise Income Tax ("EIT")	11,458	13,210
Deferred tax		
Origination and reversal of temporary differences	(2,832)	(5,154)
	8,626	8,056

- (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 payment of the 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 does not earn any income subject to Hong Kong Profits Tax during the year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

8. INCOME TAX *(Continued)*

- (d) PRC subsidiaries are subject to PRC EIT at 25%. The PRC subsidiaries of the Group, Synertone Soontend Electronic (Shenzhen) Company Limited ("Synertone Soontend") (literal translation of 協同迅達電子科技(深圳)有限公司) and Synertone Smartend Communication Technology (Shenzhen) Company Limited ("Synertone Smartend") (literal translation of 協同智迅通信技術(深圳)有限公司), being the foreign invested "encouraged hi-tech enterprise" were entitled to a preferential EIT rate of 15% (2012: 15%).

For Synertone Soontend, the period of grant of preferential EIT rate expired on 31 December 2012. The EIT rate was therefore 25% from 1 January 2013 onwards.

- (e) Under the EIT Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income 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 tax 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 of the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25% on 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. Deferred tax liabilities of approximately HK\$7,038,000 (31 March 2013: HK\$9,871,000) in respect of the withholding income tax on dividend to be paid out of earnings not yet distributed since 1 January 2008 has been recognised by the Group for the six months ended 30 September 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

9. DIVIDENDS

- (a) During the six months ended 30 September 2013, no interim dividend was declared by the directors (2012: Nil).
- (b) Dividend payable to owners of the Company attributable to the previous financial year, approved and paid during the interim period.

	2013 HK\$'000	2012 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK3 cents per ordinary share (2012: HK4 cents)	36,000	48,000

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK\$32,618,000 (2012: HK\$21,511,000) and the weighted average number of 1,200,000,000 ordinary shares (2012: 1,171,978,022 ordinary shares) in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for both the six months ended 30 September 2013 and 30 September 2012 were the same as the basic earnings per share as no potential ordinary share was in issue for both periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2013, the Group spent approximately HK\$14,404,000 (2012: HK\$12,910,000) on additions to property, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

12. INTANGIBLE ASSETS

Intangible assets of the Group comprised as follows:

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Technical know-how for digital trunking system	7,915	9,975
Technical know-how for VSAT satellite system	–	–
Administrative system costs	1,754	2,256
	9,669	12,231

Administrative system costs represent costs of Group's computer system software. Technical know-how for digital trunking system and VSAT satellite system represents technical know-how acquired by the Group in relation to the production of specialised communication systems.

The amortisation charge for the year is included in cost of sales and administrative expenses in the condensed consolidated statement of profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

13. DEPOSIT PAID FOR ACQUISITION OF INTANGIBLE ASSETS

On 30 December 2012, Vastsuccess Holdings Limited ("VAST"), an indirect wholly-owned subsidiary of the Company, entered into a framework agreement (the "Framework Agreement") with an independent third party (the "Vendor") to acquire satellite capacity for serving the whole People's Republic of China's geographic territory (including Hong Kong Special Administration Region and Macao Special Administration Region but excluding Taiwan Region) for the period of at least nine and a half years (the "Service Period"). Details of the Framework Agreement can be referred to the announcement of the Company dated 30 December 2012.

Further on 29 March 2013, VAST entered into an acquisition agreement (the "Definitive Agreement") (as amended and supplemented by supplemental agreements dated 10 April 2013 and 13 September 2013 respectively) with the Vendor pursuant to the Framework Agreement. According to the Definitive Agreement, the consideration amount to US\$80 million, which consists of (i) cash installments in aggregate of approximately US\$75.9 million payable annually by VAST to the Vendor during the Service Period and (ii) the 64,000,000 shares of the Company amounting to approximately US\$4.1 million to be allotted and issued at the issue price of HK\$0.5034 per share. Details of the Definitive Agreement can be referred to the announcements of the Company dated 15 April 2013 and 13 September 2013 respectively and the circular of the Company dated 26 September 2013.

Further on 13 September 2013, VAST entered into the supplement agreements (the "Supplemental Agreements") to the Definitive Agreement and the revenue sharing agreement (the "Revenue Sharing Agreement") with the Vendor. According to the Supplement Agreements, certain terms of the Definitive Agreement and the Revenue Sharing Agreement are varied and certain new terms are incorporated in the Definitive Agreement. The variation includes but not limited to the amendments to the payment terms of the Definitive Agreement and commencement date of the service period of both the Definitive Agreement and Revenue Sharing Agreement. Details of the amendments can be referred to the announcement of the Company dated 13 September 2013.

As at 30 September 2013, deposits of HK\$4,680,000 were paid in cash by the Group.

The provision of satellite capacity as acquired under the Definitive Agreement was commenced on 15 October 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

14. TRADE AND OTHER RECEIVABLES

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Trade receivables <i>(note (a), (b) and (c))</i>	132,564	115,824
Advance to suppliers	25,172	1,214
Advance to staff	1,339	879
VAT receivables	16	175
Bills receivables	8,883	–
Loans and receivables	167,974	118,092
Other prepayments and deposits	2,035	1,827
	170,009	119,919

- (a) For certain contracts, retention money representing 5% to 10% of the contract is not due until the warranty period expired, which varies from one year to two years. Included in trade receivables as at 30 September 2013 are retention money of HK\$421,000 (31 March 2013: HK\$858,000). All of the trade and other receivables, except for the retention money which are expected to be recovered after the warranty period, apart from prepayments and deposits are expected to be recovered within one year.
- (b) For the six months ended 30 September 2013, purchases of the Group's products by its customers are in general made on credit with credit period of 30 to 180 days (31 March 2013: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2013: 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

14. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
0–60 days	93,148	50,662
61–90 days	376	22,832
91–180 days	955	588
181–365 days	36,718	40,190
Over 365 days	1,367	1,552
	132,564	115,824

The directors consider the carrying amounts of trade receivables approximate to their fair values.

15. TRADE AND OTHER PAYABLES

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Trade payables	12,637	13,524
Accrued salaries	2,128	1,732
Accrued expenses and other payables	1,757	1,428
Financial liabilities measured at amortised costs	16,522	16,684
Deposits received from customers	578	1,544
Other tax payables	7,631	5,995
	24,731	24,223

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

for the six months ended 30 September 2013

15. TRADE AND OTHER PAYABLES (Continued)

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

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
0–60 days	6,683	9,316
61–90 days	500	40
91–180 days	1,963	413
181–365 days	1,217	1,008
Over 365 days	2,274	2,747
	12,637	13,524

16. SHARE CAPITAL

	30 September 2013		31 March 2013	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each				
At beginning and end of the period/year	2,000,000	20,000	2,000,000	20,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At beginning of the period/year	1,200,000	12,000	900,000	9,000
Issue of shares under placing and public offering	–	–	300,000	3,000
At end of the period/year	1,200,000	12,000	1,200,000	12,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

16. SHARE CAPITAL *(Continued)*

On 18 April 2012, the Company issued 300,000,000 shares with a par value of HK\$0.01 each, at a price of HK\$0.33 per share by way of placing and public offering (the "Global Offering"). Net proceeds from the Global Offering amounted to HK\$84,095,000 (after deducting the issuance costs of HK\$14,905,000) were credited to the share premium account.

17. COMMITMENTS

- (a) Capital commitments outstanding but not provided for in the interim financial report:

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Contracted but not provided for:		
Acquisition of intangible assets and rights to use <i>(note 13)</i>	619,320	619,320
Acquisition of intangible assets	3,120	3,120
Renovation of new office	2,651	7,664
	625,091	630,104

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

17. COMMITMENTS *(Continued)*

- (b) As at 30 September 2013, the total future minimum lease payments under non-cancellable operating leases were as follows:

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Within one year	4,013	4,060
In the second to fifth year inclusive	13,570	13,586
Over five years	7,828	9,128
	25,411	26,774

Operating lease payments represent rental payable by the Group for certain of its office and factory premises. Leases and rentals are negotiated and fixed for an average of 2 to 10 years. None of the leases includes contingent rentals.

18. MATERIAL RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions.

(a) Balances with related parties

At the end of each reporting period, the Group had the following balances with related parties:

Amount due to a director

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Wong Chit On	1	241

The amount was unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

for the six months ended 30 September 2013

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with key management personnel

The remuneration of directors of the Company and other key management personnel of the Group during the period was as follows:

	For the six months ended	
	30 September	
	2013	2012
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	4,483	4,125
Post-employment benefit	83	79
	4,566	4,204

19. EVENTS AFTER THE END OF THE REPORTING PERIOD

Other than disclosed elsewhere in the financial statements, the following events took place after the reporting period:

- (a) On 30 September 2013, the Company entered into a subscription agreement with the subscriber. Under the subscription agreement, the Company has agreed to issue and the subscriber has agreed to subscribe for 120,000,000 warrants at the issue price of HK\$0.01 per warrant. Each warrant carries the right to subscribe at the subscription price of HK\$2.00 per warrant share.

The subscription was completed on 22 October 2013. 120,000,000 warrants have been issued by the Company to the subscriber at the issue price of HK\$0.01 per warrant.

- (b) On 8 November 2013, 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\$500,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of core components of specialised communication systems. Thanks to its autonomous research and development efforts and through the acquisition of the related intellectual property rights and technical knowledge from third parties, the Group designs and develops products and technologies related to digital trunking systems and satellite communications systems. The Group also provides specialised communications network design and implementation solutions that are customized according to the specific needs of its customers. In addition, the Group takes part in research and development of system technology in respect of the operation of specialized communication system, and sells parts and components to certain customers, in order to carry out further integration or to serve other related purposes. The products of the Group are mainly utilized by end-users for public safety and emergency communication purposes. For example, users are able to remotely monitor and co-ordinate emergency rescue exercises or remotely monitor the operation of and location of vehicles through the use of the Group's products. Customers or end-users of the Group's products and solutions are mainly governmental bodies and private business enterprises.

The Company is entering into the satellite communication industry through the very substantial acquisition (the "Acquisition") of the (i) the bandwidth capital and the bandwidth capacity service and (ii) the right to use of the gateways located in Guangzhou, Beijing and Shanghai for the transmission of the broadband Internal access and other applications throughout the service period of 9.5 years. Details of the acquisition can be referred to the announcements of the Company dated 15 April 2013 and 13 September 2013 respectively and the circular of the Company dated 26 September 2013.

On 30 September 2013, the Company entered into the subscription agreement with CITIC Merchant Co., Limited to issue 120,000,000 warrants at issue price of HK\$0.01 per warrant. Each warrant carries the right to subscribe at HK\$2.00 per warrant share at any time during two year period commencing from 22 October 2013. The warrant shares were issued under the general mandate.

On 8 November 2013, the Company was entered into a conditional agreement concerning subscription for convertible bond in principal amount of HK\$500,000,000 with Regal Force Limited. An extraordinary general meeting shall be convened to pass the necessary resolution(s) approving the grant of a special mandate to the Board of Directors for the issue and allotment of the Conversion Shares in December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

For the six months ended 30 September 2013, the Group's revenue was approximately HK\$84.7 million, representing an increase of approximately HK\$35.4 million or 71.8% against the figure of HK\$49.3 million for the six months ended 30 September 2012. The increase was mainly attributable to the increase in sales of very small Aperture Terminal ("VSAT") satellite systems and system technology. For the six months ended 30 September 2013, the Group performed better in terms of gains from its digital trunking systems, VSAT satellite systems and system technology. The revenue of the Group from its digital trunking systems amounted to approximately HK\$52.2 million, accounting for 61.6% of the total revenue. Revenue from VSAT satellite systems was approximately HK\$20.4 million, accounting for 24.0% of the total revenue. Revenue from system technology gain of approximately HK\$11.9 million, accounting for 14.1% of the total revenue.

In 2013, the self-developed antenna of the Group was officially rolled out and marketed to customers of the Group.

PROSPECTS

In view of the growing potentials of the communication industry in the PRC, the Group has realized the potential opportunities in the specialized communication field and continued to address the needs of the market and the public through innovation, quality products, refined services and diversification. The management of the Group will continue to explore potential business opportunities in the field which may generate greater return to the Shareholders.

After the Acquisition, the Group is able to offer the satellite bandwidth together with the communication network designed by it to its customers as a collaborative communication solution to provide one-stop services to its customers. By doing so, the Group can diversify the source of revenue and enhance the profitability of the Group to create values for all Shareholders in the future.

The satellite bandwidth enables the Group to explore new source of revenue and expand its customer base. Also, the Group expects to increase the sales of its existing specialised communication products as the Group can lease the satellite bandwidth to customers who can connect the Group's communication products to the IPSTAR, THAICOM-4 satellite, without sourcing satellite bandwidth from other satellite service providers in the PRC. Details of the acquisition can be referred to the announcements of the Company dated 15 April 2013 and 13 September 2013 respectively and the circular of the Company dated 26 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS *(Continued)*

Moreover, the Board believes that the high performance and competitive pricing that the Group can offer and consolidate relationship with China Telecommunications Corporation, the management believes the above advantages will attract new customers such as telecommunication operators and governmental bodies so that the Group can increase its revenue and profit by leasing the satellite bandwidth and enhance the Group's market position in PRC. As a result, the Acquisition is not only beneficial to the development of the Group's current business but also allowing the Group to diversify its business risk through new source of revenue and expanding base of customers.

The Group will remain focus as a major provider of core components of specialised communication system, the Board strongly believes diversification into the satellite bandwidth business would consequently create synergetic effects among the core components business, ultimately contributing noticeable benefits to the Group and enhancing Shareholders' returns in the long-run.

Turnover

The Group recorded turnover of approximately HK\$84.7 million for the six months ended 30 September 2013, representing an increase of approximately HK\$35.4 million or 71.8% as compared with the amount of approximately HK\$49.3 million in the corresponding period last year. The increase was mainly attributable to (1) the rise in sales of digital trunking systems by approximately HK\$8.4 million or 19.2% from approximately HK\$43.8 million for the six months ended 30 September 2012 to approximately HK\$52.2 million for the six months ended 30 September 2013; (2) the rise in sales of VSAT satellite systems by approximately HK\$14.9 million or 270.9% from approximately HK\$5.5 million for the six months ended 30 September 2012 to approximately HK\$20.4 million for the six months ended 30 September 2013; and (3) the fact that we recorded sales amount of approximately HK\$11.9 million from system technology for the six months ended 30 September 2013, while no such sales amount was recorded during the six months ended 30 September 2012.

Gross Profit and Gross Profit Margin

Due to the rise in sales as discussed above, the Group's gross profit for the six months ended 30 September 2013 was approximately HK\$54.8 million, representing an increase of approximately HK\$28.1 million or 105.3% as compared with the amount of approximately HK\$26.7 million for the six months ended 30 September 2012. There was an increase in the overall gross profit margin from approximately 54.2% to 64.7%, mainly as a result of the rise in sales amount and the relatively stable level of certain fixed costs (such as production costs and labour costs).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS *(Continued)*

Other Revenue

Other revenue of the Group decreased by approximately HK\$13.3 million or 47.9% from approximately HK\$27.8 million for the six months ended 30 September 2012 to approximately HK\$14.5 million for the six months ended 30 September 2013, primarily as a result of the decrease in value-added tax refund by the PRC governmental authority from approximately HK\$26.6 million during the six months ended 30 September 2012 to approximately HK\$6.3 million during the six months ended 30 September 2013.

Selling and distribution expenses

For the six months ended 30 September 2013, the selling and distribution expenses of the Group amounted to approximately HK\$5.1 million, which remained basically flat as the amount of approximately HK\$4.9 million for the six months ended 30 September 2012.

Administrative Expenses

The administrative expenses of the Group decreased slightly by approximately HK\$0.9 million or 5.5% from approximately HK\$16.3 million for the six months ended 30 September 2012 to approximately HK\$15.4 million for the six months ended 30 September 2013.

Research and Development Expenditure

The research and development expenditure of the Group increased by approximately HK\$2.5 million or 65.8% from approximately HK\$3.8 million for the six months ended 30 September 2012 to approximately HK\$6.3 million for the six months ended 30 September 2013, mainly due to the increase in expenses associated with the active research and development activities conducted for VSAT satellite during the six months ended 30 September 2013.

Finance Costs

The Group's finance costs amounted to approximately HK\$1.3 million for the six months ended 30 September 2013. During the six months ended 30 September 2012, the Group had neither debt financing nor finance costs.

Tax Expense

The tax expense of the Group increased slightly by approximately HK\$0.5 million or 6.2% from approximately HK\$8.1 million for the six months ended 30 September 2012 to approximately HK\$8.6 million for the six months ended 30 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS *(Continued)*

Profit for the Period

The Group's profits for the six months ended 30 September 2013 increased by approximately HK\$11.1 million from approximately HK\$21.5 million for the six months ended 30 September 2012 to approximately HK\$32.6 million for the six months ended 30 September 2013, mainly as a result of the increase in sales.

LIQUIDITY AND CAPITAL RESOURCES

The liquidity requirements of the Group arise principally from the need for working capital to finance its operations and expansions. Previously, the Group met its working capital and other capital requirements principally from cash generated from its operations, bank borrowings and capital contributions by the Shareholders. In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings.

For the six months ended 30 September 2013, the net cash generated from operating activities, net cash used in investing activities, and net cash generated from financing activities were HK\$17.8 million (compared to the net cash used in operating activities of approximately HK\$34.1 million for the corresponding period last year), HK\$13.7 million (compared to HK\$20.8 million for the corresponding period last year), and HK\$37.3 million (compared to HK\$40.6 million for the corresponding period last year), respectively.

Bank Borrowings

As of 30 September 2013, the Group had no outstanding bank borrowings.

Pledge of Assets

As of 30 September 2013, the Group had no assets pledged for securing any credit facilities.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 September 2013.

Financing and Treasury Policies

The Group continues to adopt prudent financing and treasury policies. All the Group's financing and treasury activities are centrally managed and controlled. Implementation of the Group's related policies is made under collective but extensive considerations on liquidity risk, financing cost and exchange rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND CAPITAL RESOURCES *(Continued)*

Foreign Exchange Risk

Almost all transactions of the Group are denominated in Renminbi, United State dollars and Hong Kong dollars and most of the bank deposits are being kept in Renminbi and Hong Kong dollars to minimise exposure to foreign exchange risk. As the fiscal policy of the Central Government of the PRC in relation to Renminbi is stable throughout the period, the Directors believe that the potential foreign exchange exposure to the Group is limited. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the six months ended 30 September 2013.

Material Transaction

Save as disclosed in note 13 to the Condensed Consolidated Interim Financial Information, no material transaction took place during the period under review.

Material Acquisitions and Disposals

Save as disclosed in above Material Transaction, for the six months ended 30 September 2013, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

EMPLOYEE AND REMUNERATION POLICY

As at 30 September 2013, the Group had 257 employees. For the six months ended 30 September 2013, the staff cost of the Group was approximately HK\$19.9 million, which rose by approximately HK\$1.6 million or 8.8% as compared to HK\$18.3 million during the corresponding period last year, mainly due to the increase in the number of employees along with our business development.

The Group's employee remuneration policy is determined based on a number of factors such as their performance, experience and prevailing industry practices. Compensation policies and packages of employees are being reviewed on a yearly basis. In addition to basic salary, performance related salary such as bonus may also be awarded to employees based on internal performance evaluation.

The Group invests 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

EMPLOYEE AND REMUNERATION POLICY *(Continued)*

Use of Net Proceeds from the Company's Initial Public Offering

As at 30 September 2013, the Group had utilised approximately HK\$26.1 million, HK\$7.8 million and HK\$17.7 million, which were applied for the research and development of digital trunking systems and products as well as VSAT satellite systems, the extension of the Group's sales network and the expansion of production volume. As at the date of this report, the Group has not yet fully utilized the proceeds from the Company's initial public offering.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2013.

INTERIM DIVIDEND

During the six months ended 30 September 2013, no interim dividend was declared by the directors.

CORPORATE GOVERNANCE

The Directors consider that throughout the six months ended 30 September 2013, the Company has fully complied with the applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the following deviation from certain code provision:

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has appointed Mr. Wong Chit On as both the chairman and the chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve a higher responsiveness efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation at the Board, comprising the executive Directors and independent non-executive Directors.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry of all the Directors, all the Directors have confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the period under review.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENT

An audit committee has established by the Company with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and monitor the Group's financial reporting process and internal control system. The members of the audit committee are Mr. Lam Ying Hung Andy, Mr. Hu Yunlin and Mr. Cai Youliang, all being independent non-executive Directors. Mr. Lam Ying Hung Andy is the chairman of the audit committee.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2013 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLIC FLOAT

Reference is made to the Company's announcement dated 17 October 2013, based on the information available and to the best knowledge of the board of directors of the Company after making all reasonable enquiries of its connected persons, the Company confirms that not less than 25% of the Company's issued shares (the "Shares") are in the hands of the public as at the date of this announcement and the Company is able to comply with the public float requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PUBLIC FLOAT *(Continued)*

In view of the high concentration of shareholding in a small number of shareholders of the Company (the “Shareholders”), Shareholders and prospective investors should be aware that the price of the Shares could fluctuate substantially even with a small number of Shares traded, and should exercise extreme caution when dealing in the Shares.

For and on behalf of the Board
Synertone Communication Corporation
Wong Chit On
Chairman and Executive Director

Hong Kong, 29 November 2013