



**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 REPORT 2014**



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## BOARD OF DIRECTORS

### Executive Directors

Mr. Wong Chit On (*Chairman*)

Mr. Han Weining

Dr. Wang Shaodong

Mr. Xia Liangbing

(appointed on 10 October 2014)

Mr. Zhang Jinbing

(resigned on 14 April 2014)

### Non-executive Director

Mr. Zhang Xuebin

### Independent Non-executive Directors

Mr. Lam Ying Hung Andy

Mr. Hu Yunlin

Mr. Cai Youliang

## BOARD COMMITTEES

### Audit Committee

Mr. Lam Ying Hung Andy (*Chairman*)

Mr. Hu Yunlin

Mr. Cai Youliang

### Remuneration Committee

Mr. Hu Yunlin (*Chairman*)

Mr. Lam Ying Hung Andy

Mr. Cai Youliang

### Nomination Committee

Mr. Cai Youliang (*Chairman*)

Mr. Lam Ying Hung Andy

Mr. Hu Yunlin

## COMPANY SECRETARY

Mr. Leung Kwok Fai, *ACIS, ACS*

(appointed on 20 August 2014)

Ms. Lam Mei Shan, *CPA, AICPA*

(resigned on 20 August 2014)

## AUTHORISED REPRESENTATIVES

Mr. Wong Chit On

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

Mr. Leung Kwok Fai

(appointed on 20 August 2014)

Ms. Lam Mei Shan

(resigned on 20 August 2014)

## 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

Unit 4, 16th Floor

Emperor Group Centre

288 Hennessy Road

Wanchai, Hong Kong

## **PRINCIPAL BANKERS**

### **Hong Kong**

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

### **PRC**

Bank of China

## **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  
Level 22, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## **LEGAL ADVISER AS TO HONG KONG LAW**

Alvan Liu & Partners  
25 & 26th Floors  
Central 88  
88 Des Voeux Road Central  
Hong Kong

## **COMPLIANCE ADVISOR**

Messis Capital Limited  
(contract ended on 23 July 2014)  
Room 1606, 16/F, Tower 2  
Admiralty Centre  
18 Harcourt Road  
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](http://www.synertone.net)

## **STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

01613

# Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 September 2014

	Note	For the six months ended 30 September	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
<b>Turnover</b>	5	<b>227,010</b>	84,736
Cost of sales		<b>(41,457)</b>	(29,902)
<b>Gross profit</b>		<b>185,553</b>	54,834
Other revenue	6	<b>25,878</b>	14,481
Selling and distribution expenses		<b>(6,203)</b>	(5,103)
Administrative expenses		<b>(60,165)</b>	(15,407)
Research and development expenditure	7(b)	<b>(8,830)</b>	(6,265)
<b>Profit from operations</b>		<b>136,233</b>	42,540
Finance costs	7(a)	<b>(12,283)</b>	(1,296)
<b>Profit before taxation</b>	7	<b>123,950</b>	41,244
Income tax	8	<b>(23,109)</b>	(8,626)
<b>Profit for the period attributable to owners of the Company</b>		<b>100,841</b>	32,618
		<b>HK(cents)</b>	HK(cents)
Earnings per share	10		
— Basic		<b>1.60</b>	2.72
— Diluted		<b>1.55</b>	2.72

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 2014

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit for the period	<b>100,841</b>	32,618
<b>Other comprehensive income for the period (net of tax):</b>		
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 (2013: HK\$nil))	<b>412</b>	1,604
<b>Total comprehensive income for the period attributable to owners of the Company</b>	<b>101,253</b>	34,222

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 2014

	Note	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	77,653	76,469
Intangible assets	12	690,906	616,565
		<b>768,559</b>	693,034
<b>Current assets</b>			
Inventories		25,088	22,344
Trade and other receivables	13	333,378	175,567
Cash and cash equivalents		70,336	87,753
		<b>428,802</b>	285,664
<b>Current liabilities</b>			
Bank borrowings	14	30,210	22,874
Trade and other payables	15	127,894	20,981
Finance lease payables	16	74,217	52,655
Amount due to a director		1	239
Current taxation		31,094	21,339
		<b>(263,416)</b>	(118,088)
<b>Net current assets</b>		<b>165,386</b>	167,576
<b>Total assets less current liabilities</b>		<b>933,945</b>	860,610

# Condensed Consolidated Statement of Financial Position *(Continued)*

as at 30 September 2014

	<i>Note</i>	<b>At 30 September 2014 HK\$'000 (Unaudited)</b>	<b>At 31 March 2014 HK\$'000 (Audited)</b>
<b>Non-current liabilities</b>			
Finance lease payables	16	<b>396,868</b>	423,677
Deferred tax liabilities		<b>1,821</b>	3,711
		<b>(398,689)</b>	(427,388)
<b>Net assets</b>		<b>535,256</b>	433,222
<b>Capital and reserves</b>			
Share capital	17	<b>63,200</b>	63,200
Reserves		<b>472,056</b>	370,022
<b>Total equity attributable to owners of the Company</b>		<b>535,256</b>	433,222

Approved and authorised for issue by the board of directors on 30 November 2014

**Wong Chit On**

**Xia Liangbing**

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 2014

Note	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Warrants reserve 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 2014	63,200	263,558	2,308	1,200	(90)	28,467	25,460	49,119	433,222
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	-	-	100,841	100,841
<b>Other comprehensive income</b>									
Exchange differences arising on translation of financial statements of PRC subsidiaries	-	-	-	-	-	-	412	-	412
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	412	100,841	101,253
<b>Transaction with owners</b>									
Equity-settled share-based payments	-	-	4,293	-	-	-	-	-	4,293
Issue of warrants	-	-	-	6,600	-	-	-	-	6,600
Dividend paid	9(b)	-	-	-	-	-	-	(10,112)	(10,112)
<b>Total transactions with owners</b>	-	-	4,293	6,600	-	-	-	(10,112)	781
At 30 September 2014	63,200	263,558	6,601	7,800	(90)	28,467	25,872	139,848	535,256
At 1 April 2013	12,000	106,758	-	-	(90)	23,843	25,399	110,276	278,186
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	-	-	32,618	32,618
<b>Other comprehensive income</b>									
Exchange differences arising on translation of financial statements of PRC subsidiaries	-	-	-	-	-	-	1,604	-	1,604
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	1,604	32,618	34,222
<b>Transaction with owners</b>									
Dividend paid	9(b)	-	-	-	-	-	-	(36,000)	(36,000)
<b>Total transactions with owners</b>	-	-	-	-	-	-	-	(36,000)	(36,000)
At 30 September 2013	12,000	106,758	-	-	(90)	23,843	27,003	106,894	276,408

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 2014

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
<b>Net cash generated from/(used in) operating activities</b>	<b>1,824</b>	(17,847)
<b>Net cash used in investing activities</b>	<b>(7,504)</b>	(13,748)
<b>Net cash used in financing activities</b>	<b>(11,776)</b>	(37,296)
<b>Net decrease in cash and cash equivalents for the period</b>	<b>(17,456)</b>	(68,891)
<b>Cash and cash equivalents at beginning of the period</b>	<b>87,753</b>	124,549
<b>Effect of changes in foreign exchange rate</b>	<b>39</b>	1,026
<b>Cash and cash equivalents at end of the period</b>	<b>70,336</b>	56,684

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 2014

## 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 (the “Shares”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in (i) the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) providing a total solution of specialised communication system, including digital trunking system, Very Small Aperture Terminal (“VSAT”) satellite system and operation integrated system and (iii) provision of THAICOM-4 satellite (“Synertone 1”) satellite bandwidth capacity and communication service application.

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 2014

## **2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed consolidated financial statements for the six months ended 30 September 2014 ("Interim Financial Statements") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (the "Interpretations") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Listing Rules of the Stock Exchange (the "Listing Rules"). The Interim Financial Statements have been prepared under the historical cost convention except for certain financial assets and investment properties that are measured at fair value. Historical cost is generally based on the fair value of the consideration of given in exchange of assets.

The accounting policies adopted in preparing the Interim Financial Statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2014 (the "2013/14 Financial Statements"), except for the new and revised standards, amendments and interpretations of HKFRSs ("new and revised HKFRSs") issued by HKICPA which have become effective in this period as detailed in notes to the 2013/14 Financial Statements. The directors of the Company believe that the application of these new and revised HKFRSs has no material impact on the amounts reported and disclosures set out in these Interim Financial Statements.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 3. SEGMENT INFORMATION

Information reported internally to 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.

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.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 3. SEGMENT INFORMATION *(Continued)*

Synertone 1 satellite system: Provision of satellite bandwidth capacity and communication service application.

Others: 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.

## 4. SEGMENT REPORTING

### (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 gain on a bargain purchase, 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 2014

## 4. SEGMENT REPORTING (Continued)

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

	Digital trunking system		VSAT satellite system		Systems technologies		Synertone 1 satellite system		Others		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the six months ended 30 September												
Revenue from external customers	76,777	52,169	8,159	20,351	-	11,924	139,669	-	2,405	292	227,010	84,736
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Reportable segment revenue	76,777	52,169	8,159	20,351	-	11,924	139,669	-	2,405	292	227,010	84,736
Reportable segment profit/(loss) (adjusted EBIT)	24,285	33,040	(2,445)	5,532	-	7,323	95,793	-	223	(38)	117,856	45,857
Interest income	588	443	63	91	-	120	-	-	-	-	651	654
Finance costs	(1,759)	(878)	(187)	(180)	-	(238)	(10,337)	-	-	-	(12,283)	(1,296)
Amortisation of intangible assets	(1,415)	(2,500)	(538)	(70)	-	(92)	(33,706)	-	-	-	(35,659)	(2,662)
Depreciation of property, plant and equipment	(2,037)	(962)	(216)	(197)	-	(260)	-	-	-	-	(2,253)	(1,419)
Write down of obsolescent inventories	-	(925)	-	-	-	-	-	-	-	-	-	(925)
Reversal of write down of inventories	2,562	-	-	-	-	-	-	-	-	-	2,562	-
Income tax	(9,142)	(5,844)	-	(1,197)	-	(1,585)	(13,967)	-	-	-	(23,109)	(8,626)

  

	Digital trunking system		VSAT satellite system		Systems technologies		Synertone 1 satellite system		Others		Total	
	30	31	30	31	30	31	30	31	30	31	30	31
	September	March	September	March	September	March	September	March	September	March	September	March
	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014
	HK\$'000	HK\$'000	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)	(Unaudited)	(Audited)
Reportable segment assets	425,065	220,091	21,633	34,560	5,426	64,997	744,248	658,943	-	-	1,196,372	978,591
Reportable segment liabilities	161,733	39,249	1,236	8,241	-	12,272	498,690	484,493	-	-	661,659	544,255

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 4. SEGMENT REPORTING *(Continued)*

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

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
<b>Revenue</b>		
Reportable segment revenue	<b>227,010</b>	84,736
Elimination of inter-segment revenue	–	–
Consolidated revenue	<b>227,010</b>	84,736
<b>Profit</b>		
Reportable segment profit	<b>117,856</b>	45,857
Elimination of inter-segment profit	–	–
Reportable segment profit derived from Group's external customers	<b>117,856</b>	45,857
Gain on a bargain purchase	<b>19,760</b>	–
Interest income	<b>651</b>	656
Finance costs	<b>(12,283)</b>	(1,296)
Unallocated corporate expenses	<b>(2,034)</b>	(3,973)
Consolidated profit before taxation	<b>123,950</b>	41,244

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 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 period is as follows:

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Digital trunking system	76,777	52,169
VSAT satellite system	8,159	20,351
Systems technologies	–	11,924
Synertone 1 satellite system	139,669	–
Other accessory parts and components	2,405	292
	<b>227,010</b>	84,736

## 6. OTHER REVENUE

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Bank interest income ( <i>note a</i> )	651	656
Government grants ( <i>note b</i> )	1,640	7,511
Value-added taxes refund ( <i>note c</i> )	3,779	6,294
Gain on a bargain purchase ( <i>note d</i> )	19,760	–
Sundry income	48	20
	<b>25,878</b>	14,481

Notes:

- Bank interest income from bank deposits represented the total interest income on financial assets not at fair value through profit or loss.
- 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".
- Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.
- Gain on a bargain purchase arose from acquisition of subsidiaries on 30 September 2014.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest expense on other borrowings wholly repayable within five years	1,946	1,296
Finance charges on finance lease payable	10,337	–
	<b>12,283</b>	1,296

### (b) Other items

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Cost of inventories	41,457	29,902
Amortisation of intangible assets	35,659	2,662
Depreciation of property, plant and equipment	2,253	1,419
Operating lease charges in respect of leased property	2,599	2,009
Research and development expenditure	8,830	6,265

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 8. INCOME TAX

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
<b>Current tax</b>		
PRC Enterprise Income Tax ("EIT")	<b>24,998</b>	11,458
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(1,889)</b>	(2,832)
	<b>23,109</b>	8,626

Notes:

- 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.
- 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.
- 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 period.
- PRC subsidiaries are subject to PRC EIT at 25%. The PRC subsidiary of the Group, 協同通信技術有限公司("協同通信")(formerly known as "協同智迅通信技術(深圳)有限公司"), being the foreign invested "encouraged hi-tech enterprise" was entitled to a preferential EIT rate of 15%.

For 協同通信, the period of grant of preferential EIT rate was expired on 31 December 2013. 協同通信 has submitted the application for renewal as being an "encouraged hi-tech enterprise". The application is still in progress up to the date of this interim report and presently the subsidiary is using EIT rate of 25%.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 8. INCOME TAX *(Continued)*

- (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\$1,821,000 (31 March 2014: HK\$3,711,000) 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 2014.

## 9. DIVIDENDS

- (a) During the six months ended 30 September 2014, no interim dividend was declared by the directors (2013: Nil).
- (b) Dividend payable to owners of the Company attributable to the previous financial year, approved and paid during the interim period.

	2014 HK\$'000	2013 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK0.16 cents per ordinary share (2013: HK3 cents)	<b>10,112</b>	36,000



# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 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\$100,841,000 (2013: HK\$32,618,000) and the weighted average number of 6,320,000,000 ordinary shares (2013: 1,200,000,000 ordinary shares) in issue during the period.

### (b) Diluted earnings per share

Profit attributable to owners of the Company (HK\$'000)	100,841
Weighted average number of ordinary shares in issue ('000)	6,320,000
Adjustment for share options ('000)	10,136
Adjustment for warrants ('000)	171,640
Weighted average number of ordinary shares for diluted earnings per share ('000)	6,501,776
Diluted earnings per share (HK cents per share)	1.55

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

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2014, the Group spent approximately HK\$5,551,000 (2013: HK\$14,404,000) on additions to property, plant and equipment.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 12. INTANGIBLE ASSETS

Intangible assets of the Group comprised as follows:

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Technical know-how for digital trunking system <i>(note a)</i>	<b>4,251</b>	5,717
Administrative system costs <i>(note b)</i>	<b>752</b>	1,254
Rights to use Synertone 1 satellite bandwidth <i>(note c)</i>	<b>575,903</b>	609,594
Safe communication technologies <i>(note d)</i>	<b>110,000</b>	–
	<b>690,906</b>	616,565

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) Administrative system costs represent costs of Group's computer system software.
- (c) It represents the rights to use Synertone 1 satellite bandwidth in relation to the provision of satellite bandwidth capacity and communication service application.
- (d) Safe communication technologies represent the technologies in relation to the provision of a safe communication environment for end users.

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.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 13. TRADE AND OTHER RECEIVABLES

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Trade receivables ( <i>note (a), (b) and (c)</i> )	<b>289,911</b>	166,023
Advance to suppliers	<b>34,764</b>	626
Advance to staff	<b>1,495</b>	1,744
VAT receivables	<b>1,392</b>	140
Loans and receivables	<b>327,562</b>	168,533
Other prepayments and deposits	<b>5,816</b>	7,034
	<b>333,378</b>	175,567

### Notes:

- (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 2014 are retention money of HK\$294,000 (31 March 2014: HK\$1,001,000). All of the trade and other receivables, except for the retention money which are expected to be recovered after the warranty period, apart from other prepayments and deposits are expected to be recovered within one year.
- (b) For the six months ended 30 September 2014, 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 2014: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2014: 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 2014

## 13. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
0–60 days	<b>182,508</b>	84,020
61–90 days	<b>5,960</b>	724
91–180 days	<b>61,910</b>	9,866
181–365 days	<b>38,431</b>	63,180
Over 365 days	<b>1,102</b>	8,233
	<b>289,911</b>	166,023

The directors of the Company (the “Directors”) consider the carrying amounts of trade receivables approximate to their fair values.

## 14. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
<b>Current liabilities</b>		
Portion of borrowings from banks due for repayment within 1 year	<b>30,210</b>	22,874

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 14. BANK BORROWINGS *(Continued)*

At 30 September 2014, interest-bearing bank borrowings were due for repayment as follows:

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Portion of term loans due for repayment within 1 year	<b>30,210</b>	22,874

The banking facilities are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. In addition, the Group's bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 September 2014, none of the covenants relating to drawn down facilities had been breached (31 March 2014: HK\$Nil).

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

- (a) All the Group's bank borrowings are denominated in RMB.
- (b) All bank borrowings are fixed-rate borrowings which carry prevailing interest rates of 7.2% per annum for the period ended 30 September 2014.
- (c) The unsecured bank borrowings were non-revolving facilities.
- (d) The Group did not have undrawn banking facilities in relation to bank borrowings as at 30 September 2014 and 31 March 2014.

# Notes to the Condensed Consolidated Interim Financial Information (Continued)

for the six months ended 30 September 2014

## 15. TRADE AND OTHER PAYABLES

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Trade payables	11,040	9,530
Accrued salaries	2,641	2,457
Accrued expenses and other payables (note a)	104,668	5,061
Financial liabilities measured at amortised costs	118,349	17,048
Deposits received from customers	1,003	689
Other tax payables	8,542	3,244
	127,894	20,981

Note:

- (a) On 26 September 2014, Radio World Holding Limited, an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Yilong Developments Limited (the "Vendor") and Dr. Wu Xiaowen, the sole shareholder and director of the Vendor and a director of 協同通信 and 協同迅達電子科技(深圳)有限公司, both are wholly-owned subsidiaries of the Company for the acquisition of 100% equity interest in Thrive United Holdings Limited ("Thrive United"), for a cash consideration of HK\$90 million. The Consideration was determined by the Company and the Vendor following arm's length negotiation and with reference to a business valuation report prepared by Roma Appraisal Limited, a valuer independent to the Group, which has put a valuation of HK\$110 million to the Thrive United Group.

Thrive United and its subsidiaries (the "Thrive United Group") are mainly in the design, development and sale of security systems for use in the internet and mobile phones using Android operating system. The acquisition allows the Group to acquire patents, trademarks and software intellectual property rights as well as the assets and businesses in mobile internet networks.

The reasons for the acquisition is to allow the Group to provide a safe communication environment for existing satellite bandwidth business and to make use of the intellectual properties, know-how and research and development capabilities of the Thrive United Group to develop new generation digital trunking products with higher level of security capabilities.

The acquisition is completed on 30 September 2014 and no consideration has been paid to the Vendor as at 30 September 2014. The outstanding consideration of HK\$90 million has been included in the other payables and up to the date of this interim report the Group paid HK\$9 million.



# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 15. TRADE AND OTHER PAYABLES *(Continued)*

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

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
0–60 days	<b>3,462</b>	3,180
61–90 days	<b>1,910</b>	32
91–180 days	<b>238</b>	1,052
181–365 days	<b>1,064</b>	737
Over 365 days	<b>4,366</b>	4,529
	<b>11,040</b>	9,530

## 16. FINANCE LEASE PAYABLES

At 30 September 2014, the Group had finance leases repayable as follows:

	<b>30 September 2014</b>		31 March 2014	
	<b>Present value of the minimum lease payments HK\$'000 (unaudited)</b>	<b>Total minimum lease payments HK\$'000 (unaudited)</b>	Present value of the minimum lease payments HK\$'000 (audited)	Total minimum lease payments HK\$'000 (audited)
Within 1 year	<b>74,217</b>	<b>93,600</b>	52,655	54,600
After 1 year but within 2 years	<b>52,396</b>	<b>70,200</b>	50,103	54,600
After 2 years but within 5 years	<b>171,719</b>	<b>210,600</b>	177,128	210,600
After 5 years	<b>172,753</b>	<b>187,200</b>	196,446	266,391
	<b>396,868</b>	<b>468,000</b>	423,677	531,591
	<b>471,085</b>	<b>561,600</b>	476,332	586,191
Less: total future interest expenses		<b>(90,515)</b>		(109,859)
Present value of lease obligations		<b>471,085</b>		476,332

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 17. SHARE CAPITAL

	30 September 2014		31 March 2014	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each				
At beginning of the period/year <i>(note i)</i>	20,000,000	200,000	2,000,000	20,000
Share issued	-	-	18,000,000	180,000
At end of the period/year	20,000,000	200,000	20,000,000	200,000
<b>Issued and fully paid:</b>				
Ordinary shares of HK\$0.01 each				
At beginning of the period/year	6,320,000	63,200	1,200,000	12,000
Issue of shares upon acquisition of asset <i>(note ii)</i>	-	-	64,000	640
Issue of bonus shares <i>(note iii)</i>	-	-	5,056,000	50,560
At end of the period/year	6,320,000	63,200	6,320,000	63,200

Notes:

- (i) Pursuant to an ordinary resolution passed at the Company's extraordinary general meeting held on 21 February 2014, the Company's authorised share capital was increased from HK\$20,000,000 (divided into 2,000,000,000 shares) to HK\$200,000,000 (divided into 20,000,000,000 shares) by creation of 18,000,000,000 new shares.
- (ii) During the year ended 31 March 2014, 64,000,000 Shares amounting to approximately US\$4.1 million were allotted and issued at the issue price of HK\$0.5034 per Share to be part of the consideration for satellite capacity acquired by Vastsuccess Holdings Limited, an indirect wholly-owned subsidiary of the Company.
- (iii) During the year ended 31 March 2014, the Company issued bonus Shares on the basis of four bonus shares for every one existing Share. The bonus issue were created as fully paid at par by way of the capitalisation of an amount in the retained profits account of the Company.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 18. COMMITMENTS

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

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Contracted but not provided for:		
Renovation of new office	<b>1,814</b>	1,813
	<b>1,814</b>	1,813

- (b) As at 30 September 2014, the total future minimum lease payments under non-cancellable operating leases were as follows:

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Within one year	<b>4,560</b>	4,540
In the second to fifth year inclusive	<b>15,300</b>	15,634
Over five years	<b>6,150</b>	8,014
	<b>26,010</b>	28,188

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.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 19. 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 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Wong Chit On	1	239

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

### (b) Transactions with key management personnel

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

	For the six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Salaries and other short-term employee benefits	4,237	4,483
Post-employment benefit	–	83
	4,237	4,566

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 20. 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:

### Issue of Convertible Bonds

On 8 November 2013, the Company entered into a subscription agreement with Regal Force Limited, being the subscriber, to subscribe for the five year 5% coupon rate redeemable convertible bonds in the aggregate principal amount of HK\$500,000,000 (the "Convertible Bonds"). Upon full conversion of the Convertible Bonds at the conversion price of HK\$2.00 per conversion Share, a total of 250,000,000 conversion Shares would be issued under this subscription agreement. The net price for each conversion Share was approximately HK\$1.999.

The conversion price represented a discounted of approximately 12.66% to the closing price of HK\$2.29 per Share as quoted on the Stock Exchange on 7 November 2013, being the last trading date prior to the date of the subscription agreement. Further to the completion of the bonus issue on 21 February 2014, the conversion price of the Convertible Bonds was adjusted to HK\$0.40 for 1,250,000,000 conversion Shares to be issued by the Company.

The Company considered that the issue of the Convertible Bonds represented an opportunity to raise additional funds for the Company to cater for its future needs while broadening the capital base of the Company. The net proceeds from the issue of the Convertible Bonds would be approximately HK\$499,650,000, half of which would be applied for and towards the Company's vertically integrated satellite communication services business and the remaining proceeds as the Group's general working capital.

The completion of the issue of the Convertible Bonds took place on 15 January 2014. Pursuant to the subscription agreement of the Convertible Bonds, the subscriber had agreed to subscribe for the Convertible Bonds in tranches in accordance with the written demand(s) by the Company to be made within two years after the abovementioned completion date. The Company, for the first time, had issued a written demand to the subscriber, for a subscription of the Convertible Bonds in a principal amount of HK\$50,000,000 (the "Subscription Money") on 31 October 2014.

The subscriber had duly agreed to subscribe for the said Convertible Bonds and made the payment of the Subscription Money on 4 November 2014. The Subscription Money had been applied to settle the periodic payment to IPSTAR Company Limited, the vendor of the bandwidth capacity on the "THAICOM-4" satellite.

# Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

for the six months ended 30 September 2014

## 20. EVENTS AFTER THE END OF THE REPORTING PERIOD

*(Continued)*

### Memorandum of Understanding of the proposed subscription of new Shares

On 10 October 2014, the Company and Mr. Wong Chit On, an executive director, the chairman of the Group and the sole beneficial owner of Excel Time Investments Limited which is a controlling shareholder of the Company entered into the legally binding memorandum of understanding (the "MOU") with Templeton Strategic Emerging Markets Fund, IV, LDC, being the investor intended to subscribe new Shares (which shall not be more than 6% of the issued share capital of the Company as enlarged by the proposed subscription) at the subscription price of HK\$0.6779 to be satisfied in cash.

The said subscription price represents a discount of approximately 0.31% to the closing price of HK\$0.68 as quoted on the Stock Exchange on 9 October 2014, being the last trading day prior to the date of the MOU; and a premium of approximately 1.79% to the average closing price of HK\$0.666 as quoted on the Stock Exchange for the last five trading days up to and including 9 October 2014.

The Company considers that the proposed subscription does not only represent an opportunity to broaden the capital base and the shareholders base of the Company, but also represents a milestone to the Company in getting the recognition by an international top notch investor. Assuming that the subscriber will subscribe the maximum number of subscription shares constituting, the total funds to be raised and the net proceeds are expected to be approximately HK\$273.47 million and HK\$273.17 million respectively. The net proceeds from the proposed subscription shall be applied mainly as supporting funds for the Group's intended construction of the "Synertone 2" communication satellite.

As at the date of this report, the said MOU and the proposed subscription are not yet materialised, no proceeds have been received. The proposed subscription is subject to the investor being satisfied its due diligence review and other conditions, within 180 days after the date of the MOU. As well as Mr. Wong Chit On shall enter into a deed of undertaking in favour of the subscriber.

## **BUSINESS REVIEW**

The Group is a provider of the operations of Synertone 1 satellite bandwidth resources, applications and product services of satellite communication systems as well as core components of the specialised communication system. The Group not only provides bandwidth rental services through providing customers with satellite bandwidth resources, but also designs and develops products and technologies relating to digital trunking and satellite communication systems by means of its own research and development and acquisition of relevant intellectual property rights and technical know-how from third parties. In addition to a series of solutions to the satellite and specialised integrated communication system, the Group also provides specialised communication network design and implementation solutions that can be customarily devised according to the specific needs of clients. Furthermore, the Group engaged in research and development of systems technologies for the operation of the specialised communication system and sale of accessory parts and components to some of its customers for further integration or other related uses. The products and services of which the Group provided to the customers mainly include (i) Synertone 1 satellite bandwidth resources and services for the public as well as professional customers, and (ii) the provision of specialised communication products and plans utilized by end-users for public safety and emergency communication purposes.

As at 22 September 2014, the Group completed the issue of an aggregate of 660,000,000 warrants to Citic Capital Management Limited at the issue price of HK\$0.01 per warrant. Each of the warrants carried the right to subscribe for one warrant Share at the subscription price of HK\$0.59. Such warrants can be exercised at any time during the exercise period of five (5) years commencing from the date of issue in integral multiples of 10,000,000 warrants.

As at 30 September 2014, the Group acquired 100% equity interest in Thrive United Holdings Limited and its subsidiaries for the acquisition of its business and certain patented technologies and software products of mobile internet networks for safe communication. The acquisition shall allow the Group to make use of the intellectual properties, technical know-how and research and development capabilities of the Thrive United to develop new-generation digital trunking products with higher level of security capabilities. To expand our market, the Group also planned to leverage on its existing business channels to sell security products of the Thrive United to both mobile phone manufacturers and telecommunication operators.

## **BUSINESS REVIEW** *(Continued)*

For the six months ended 30 September 2014, the Group recorded a revenue of approximately HK\$227.0 million, representing an increase of approximately HK\$142.3 million or 168.0% when compared to approximately HK\$84.7 million for the six months ended 30 September 2013. It was mainly attributable to the growth of rental services of satellite bandwidth resources following the acquisition of Synertone 1 satellite bandwidth resources by the Group on 15 October 2013. For the six months ended 30 September 2014, the Group's revenue from digital trunking system was approximately HK\$76.8 million, accounting for 33.8% of its total revenue. Revenue from the Very Small Aperture Terminal satellite system was approximately HK\$8.2 million, accounting for 3.6% of its total revenue. Revenue from Synertone 1 satellite system was approximately HK\$139.7 million, accounting for 61.5% of its total revenue.

## **PROSPECTS**

The PRC government has maintained the stability and continuity of macro economy policies for the economic development and actively advanced and facilitated adjustments to the economic structure and industrial transformation. It also provided sufficient supports to the technological advancement and independent technical development, which is beneficial to the comprehensive development of satellite communication industry. In addition, the initiation of the mixed-mode operation by the PRC government, coupled with its supports and expectations to private enterprises, it is beneficial for the Group's management to further explore potential business opportunities with an aim to create more fruitful returns to the shareholders.

The PRC government holds the unwavering belief to maintain its support to and emphasis on the development of spacecraft engineering and exploration, communications technology, satellite communications and other high-tech industries and the development of disaster assistance and environmental protection. It also commenced various economic activities in remote areas. These developments are expected to stimulate the demand of specialised communication products and networks, and in turn, create enormous business opportunities to the Group. In spite of the specialised communication market affected by short-term economic fluctuation, we believe the industry outlook remains favorable as the economy has stabilized. To further strengthen the current development of the satellite communication business, the Company is taking the initiative in considering the feasibility of the construction of "Synertone 2" communication satellite (the "Synertone 2"). Should the plan works out as expected, the "Synertone 2" would principally provide more satellite bandwidth resources to the Group to meet the growing market in the PRC.



## **PROSPECTS** *(Continued)*

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.

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.

## **FINANCIAL REVIEW**

### **Turnover**

The Group recorded turnover of approximately HK\$227.0 million for the six months ended 30 September 2014, representing an increase of approximately HK\$142.3 million or 168.0% as compared with the amount of approximately HK\$84.7 million in the corresponding period last year. The increase was mainly attributable to (1) we recorded sales amount of approximately HK\$139.7 million from Synertone 1 satellite system for the six months ended 30 September 2014, while no such sales amount was recorded during the six months ended 30 September 2013; and (2) the rise in sales of digital trunking systems by approximately HK\$24.6 million or 47.1% from approximately HK\$52.2 million for the six months ended 30 September 2013 to approximately HK\$76.8 million for the six months ended 30 September 2014.

### **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 2014 was approximately HK\$185.6 million, representing an increase of approximately HK\$130.8 million or 238.7% as compared with the amount of approximately HK\$54.8 million for the six months ended 30 September 2013. There was an increase in the overall gross profit margin from approximately 64.7% to 81.7%, mainly as a result of the rise in sales amount from Synertone 1 satellite system and the relatively stable level of certain fixed costs (such as production costs and labour costs).

### **Other Revenue**

Other revenue of the Group increased by approximately HK\$11.4 million or 78.6% from approximately HK\$14.5 million for the six months ended 30 September 2013 to approximately HK\$25.9 million for the six months ended 30 September 2014, mainly as a result of the gain on a bargain purchase arose from acquisition.

## **FINANCIAL REVIEW** *(Continued)*

### **Selling and distribution expenses**

For the six months ended 30 September 2014, the selling and distribution expenses of the Group amounted to approximately HK\$6.2 million, which increased 21.6% as the amount of approximately HK\$5.1 million for the six months ended 30 September 2013.

### **Administrative Expenses**

The administrative expenses of the Group increased by approximately HK\$44.8 million or 290.9% from approximately HK\$15.4 million for the six months ended 30 September 2013 to approximately HK\$60.2 million for the six months ended 30 September 2014. The increase mainly attributable to the amortisation of Synertone 1 of HK\$33.7 million, while no such amortisation amount was record during the six months ended 30 September 2013 as Synertone 1 has not been acquired at that time.

### **Research and Development Expenditure**

The research and development expenditure of the Group increased by approximately HK\$2.5 million or 39.7% from approximately HK\$6.3 million for the six months ended 30 September 2013 to approximately HK\$8.8 million for the six months ended 30 September 2014, 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 2014.

### **Finance Costs**

The Group's finance costs increased by approximately HK\$11.0 million or 846.2% from approximately HK\$1.3 million for the six months ended 30 September 2013 to approximately HK\$12.3 million for the six months ended 30 September 2014 in relation to the finance lease payable of acquisition of Synertone 1 satellite bandwidth resources, as well as interest expenses of approximately HK\$10.3 million.

### **Tax Expense**

The tax expense of the Group increased by approximately HK\$14.5 million or 168.6% from approximately HK\$8.6 million for the six months ended 30 September 2013 to approximately HK\$23.1 million for the six months ended 30 September 2014.

### **Profit for the Period**

The Group's profits for the six months ended 30 September 2014 increased by approximately HK\$68.2 million from approximately HK\$32.6 million for the six months ended 30 September 2013 to approximately HK\$100.8 million for the six months ended 30 September 2014, mainly due to the fact that its newly acquired Synertone 1 satellite system business has shown its value and the strong performance of other existing business.

## **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 2014, the net cash generated from operating activities, net cash used in investing activities, and net cash generated from financing activities were HK\$1.8 million (compared to the net cash used in operating activities of approximately HK\$17.8 million for the corresponding period last year), HK\$7.5 million (compared to HK\$13.7 million for the corresponding period last year), and HK\$11.8 million (compared to HK\$37.3 million for the corresponding period last year), respectively.

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.63 as at 30 September 2014 (31 March 2014: approximately 2.42). Gearing ratio (total borrowings (comprises bank borrowings and finance lease payables), net of cash and cash equivalents, over total equity attributable to owners of the Company) as at 30 September 2014 was 80.51% (31 March 2014: 94.98%).

### **Bank Borrowings**

As of 30 September 2014, the Group had outstanding bank borrowings of HK\$30.2 million, such borrowing represents the bank credit facilities which granted without pledge.

### **Pledge of Assets**

As of 30 September 2014, the Group had no assets pledged for securing any credit facilities.

### **Contingent Liabilities**

The Group had no material contingent liabilities as at 30 September 2014.

### **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.

## **LIQUIDITY AND CAPITAL RESOURCES** *(Continued)*

### **Foreign Exchange Risk**

Almost all transactions of the Group are denominated in RMB, United State dollars and Hong Kong dollars and most of the bank deposits are being kept in RMB and Hong Kong dollars to minimise exposure to foreign exchange risk. As the fiscal policy of the Central Government of the PRC in relation to RMB 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 2014.

## **MATERIAL TRANSACTION**

### **Subscription of unlisted Warrants**

On 28 August 2014, the Company entered into a subscription agreement with the Citic Capital Management Limited, being the subscriber, to subscribe for a total of 660,000,000 unlisted warrants (the "Warrants") conferring rights to subscribe for 660,000,000 warrant Shares at the warrant subscription price of HK\$0.59 pursuant to the general mandate granted at the annual general meeting of the Company held on 21 August 2014. The Warrants had been issued by the Company on 22 September 2014.

The issue price was HK\$0.01 per Warrant and the net issue price after deduction of the relevant expenses of the Warrants was approximately HK\$0.0095. The aggregate issue price and the warrant subscription price (i.e. HK\$0.6) represented a premium of approximately 11.11% over the closing price of HK\$0.54 per Share as quoted on the Stock Exchange on 28 August 2014, being the date of the subscription agreement.

The Company considered that the issue of Warrants represented an opportunity to raise additional funds to cater for its future needs and broadening its capital base. The net proceeds from the subscription of Warrants of approximately HK\$6,300,000 which had been applied as the general working capital of the Group. Assuming the full exercise of the subscription rights attaching to the Warrants, the total gross and net funds to be raised, including the funds raised by the subscription of Warrants, would approximately HK\$396,000,000 and HK\$395,600,000. The net proceeds of approximately HK\$395,600,000 shall be applied mainly as supporting funds for the Group's intended construction of the "Synertone 2" communication satellite as disclosed in the Company's announcement dated 19 June 2014. The intended plan is to substantially generate more satellite bandwidth resources to the Group for meeting the growing market in the PRC.

As at the date of this interim report, the total of 660,000,000 Warrants is still outstanding. None of the Warrants had neither been exercised nor transferred by the subscriber.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

Save as disclosed in note 15(a), for the six months ended 30 September 2014, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 September 2014, the Group had 292 employees. For the six months ended 30 September 2014, the staff cost of the Group was approximately HK\$23.9 million, which rose by approximately HK\$4 million or 20% as compared to HK\$19.9 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.

## **USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

As at 30 September 2014, the Company had used approximately HK\$44.9 million, HK\$8.9 million, HK\$17.7 million and HK\$8.9 million for research and development of products of digital trunking system and VSAT satellite system, expansion of sales network and the capacity expansion of the Group respectively. And as at the date of this interim report, the Group has not yet fully utilised 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 2014.

## INTERIM DIVIDEND

During the six months ended 30 September 2014, no interim dividend was declared by the directors.

## DIRECTORS', CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2014, the interests and short positions of the Directors and chief executive of the Company in any of the Company's shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Chapter 571, Laws of Hong Kong ("SFO")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules were as follows:

### (A) Long positions in shares

Name of Director	Capacity/Nature of interest	Number and class of securities held	Approximate percentage of shareholding
Mr. Wong Chit On (Note 1)	Interest in a controlled corporation	2,483,000,000	39.29%
Mr. Zhang Xuebin	Beneficial owner	5,000,000	0.08%
Mr. Hu Yunlin	Beneficial owner	20,000,000	0.32%

Note 1: Mr. Wong Chit On is the beneficial owner of all the issued share capital of Excel Time Investments Limited ("Excel Time") which holds 2,483,000,000 Shares. Therefore, Mr. Wong Chit On is deemed, or taken to be, interested in all the Shares which are beneficially owned by Excel Time for the purposes of the SFO.

## DIRECTORS', CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

### (B) Long Positions in the Shares of Associated Corporations

Name of Director	Name of associated corporations	Capacity/Nature of interest	Number and class of securities held	Approximate percentage of shareholding
Mr. Wong Chit On	Excel Time	Beneficial owner	78,000	100%

### (C) Long Positions in Share Options

Name of director	Date of grant	Exercise price (HK\$)	Exercisable period	Outstanding as at 30.9.2014
Mr. Wong Chit On	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Han Weining	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Dr. Wang Shaocong	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Zhang Xuebin	24.12.2013	0.50	24.12.2015 — 23.12.2018	60,000,000
Mr. Lam Ying Hung Andy	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Hu Yunlin	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Cai Youliang	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000

Save as disclosed above, as at 30 September 2014, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 30 September 2014, the interests and short positions of the then shareholders of the Company (other than a Director or chief executive of the Company) in the Shares or underlying Shares of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

<b>Name of Shareholder</b>	<b>Capacity/Nature of interest</b>	<b>Number and class of securities held</b>	<b>Approximate percentage of shareholding</b>
Excel Time <i>(Note 1)</i>	Beneficial owner	2,483,000,000	39.29%
Ms. Ni Yun Zi <i>(Note 1)</i>	Interest of spouse	2,489,000,000	39.38%

*Note 1:* All the issued share capital of Excel Time is owned by Mr. Wong Chit On. Being the spouse of Mr. Wong Chit On, Ms. Ni Yun Zi is also deemed to be interested in all the Shares which are beneficially owned by Excel Time and 6,000,000 share options beneficially held by Mr. Wong Chit On in personal capacity for the purposes of the SFO.

Save as disclosed herein, as at 30 September 2014, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares that were recorded in the register kept by the Company under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures" above, at no time since incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.



## **SHARE OPTION SCHEME**

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 22 March 2012.

Eligible participants of the Share Option Scheme include, (i) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which the Company or any of its subsidiaries holds an equity interest, including any executive Director of the Company, any of its subsidiaries or any Invested Entity; (ii) any non-executive Director (including any independent non-executive Director) of the Company, any of its subsidiaries or any Invested Entity; (iii) any shareholder of the Company, any of its subsidiaries or any Invested Entity or any holder of any securities issued by the Company, any of its subsidiaries or any Invested Entity who has, in the opinion of the Board, made contribution to the business growth of the Company, any of its subsidiaries or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Company, any of its subsidiaries or any Invested Entity; (v) any supplier of goods and/or services to the Company, any of its subsidiaries or any Invested Entity; (vi) any business collaborator, business consultant, joint venture or business partner, technical, financial, legal and other professional advisers engaged by the Company, any of its subsidiaries or any Invested Entity; (vii) any associate of the directors or the substantial shareholders of the Company, any of its subsidiaries or any Invested Entity who has, in the opinion of the Board, made contribution to the business growth of the Company, any of its subsidiaries or any Invested Entity; or (viii) the trustee of any trust pre-approved by the Board, the beneficiary (or in case of discretionary trust, the discretionary objects) of which includes any of the above-mentioned persons and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to the above classes of participants. For the avoidance of doubt, the grant of any option by the Company for the subscription of Shares or other securities of the Company or its subsidiaries to any person who fall within any of the above classes of participants shall not, by itself, unless the Board otherwise determines, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any option shall be determined by the Board at its sole and absolute discretion from time to time.

## SHARE OPTION SCHEME *(Continued)*

On 24 December 2013, the Board granted a total of 120,000,000 share options under the Share Option Scheme adopted by the Company on 22 March 2012 to certain eligible persons, to subscribe, in aggregate, for up to 120,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company subject to acceptance of the eligible persons. The details of the share option scheme are as follow:

Exercise price of the Share Options granted:	HK\$2.50 per Share
Number of Share Options granted:	120,000,000
Validity period of the Share Options:	Five years, from 24 December 2013 to 23 December 2018 (both dates inclusive)

On the basis of four bonus shares for every one existing share held on 17 February 2014, a total of 5,056,000,000 bonus shares were issued on 21 February 2014. As a result of the bonus issue, adjustments were made to the exercise price and the number of shares which may fall to be issued upon exercise of the Share Options. The Share Options was adjusted in the manner set forth below as a result of the Bonus Issue with effect from 21 February 2014:

Date of grant	Before Bonus Issue		After Bonus Issue	
	Number of Option Shares to be issued upon exercise of the Share Options	Exercise price per Option Share HK\$	Adjusted number of Option Shares to be issued upon exercise of the Share Options	Adjusted exercise price per Option Share HK\$
24 December 2013	120,000,000	2.50	600,000,000	0.5

## SHARE OPTION SCHEME *(Continued)*

The options period is 5 years whereas the vesting period is 2 years. Details of these options are as follows:

Category of participants	Date of grant	Exercise price (HK\$)	Exercisable period	Outstanding as at 30.9.2014
<b>Directors</b>				
Mr. Wong Chit On	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Han Weining	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Dr. Wang Shadong	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Zhang Xuebin	24.12.2013	0.50	24.12.2015 — 23.12.2018	60,000,000
Mr. Lam Ying Hung Andy	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Hu Yunlin	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
Mr. Cai Youliang	24.12.2013	0.50	24.12.2015 — 23.12.2018	6,000,000
<b>Employees</b>				
Employees, in aggregate	24.12.2013	0.50	24.12.2015 — 23.12.2018	504,000,000
				600,000,000

During the six months ended 30 September 2014, the Group recognized the net expenses of HK\$4,293,000 (2013:Nil) in relation to share options granted.

The options vest in 3 installments; (i) 33.33% after 2 years from the date of grant; (ii) 33.33% after 3 years from the date of grant; and (iii) 33.33% after 4 years from the date of grant.

## **CORPORATE GOVERNANCE**

The Directors consider that throughout the six months ended 30 September 2014, 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 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.

## **MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTION**

The Company has adopted the Model Code 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 (the “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 2014 and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

## **PUBLIC FLOAT**

Based on the information available and to the best knowledge of the board of directors, information and benefit, the Company has maintained sufficient public float under the Listing Rules.

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

Hong Kong, 30 November 2014