



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
2016

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chit On (*Chairman*)

Mr. Han Weining (*Chief Executive Officer*)

Independent Non-executive Directors

Mr. Lam Ying Hung Andy

Mr. Wang Chen

Ms. Li Mingqi

COMMITTEES

Audit Committee

Mr. Lam Ying Hung Andy (*Chairperson*)

Mr. Wang Chen

Ms. Li Mingqi

Nomination Committee

Mr. Wang Chen (*Chairperson*)

Mr. Lam Ying Hung Andy

Ms. Li Mingqi

Remuneration Committee

Ms. Li Mingqi (*Chairperson*)

Mr. Lam Ying Hung Andy

Mr. Wang Chen

COMPANY SECRETARY

Mr. Tse Kam Fai, *FCIS, FCS, MHKIoD*

AUTHORISED REPRESENTATIVES

Mr. Wong Chit On

Mr. Lam Ying Hung Andy

(alternate to Mr. Wong Chit On)

Mr. Tse Kam Fai

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 1012, 10/F

Tsim Sha Tsui Centre

66 Mody Road

Kowloon, 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
China Construction Bank
Agricultural Bank of China
Industrial and Commercial Bank of China
China Merchants Bank

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 BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISER

Alvan Liu & Partners
25 & 26th Floors
Central 88
88 Des Voeux Road 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 2016

The board (the “**Board**”) of directors (the “**Directors**”) of Synertone Communication Corporation (the “**Company**”) hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2016, together with the comparative figures for the corresponding period in 2015, as follows:

		For the six months ended 30 September	
	Note	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	4	50,102	37,107
Cost of sales		(48,323)	(43,779)
Gross profit/(loss)		1,779	(6,672)
Other income	5	21,434	6,229
Fair value change on derivative financial instruments	19	(34,697)	–
Selling and distribution expenses		(7,602)	(2,562)
Administrative expenses		(46,655)	(29,736)
Research and development expenditure		(15,597)	(10,002)
Loss from operations		(81,338)	(42,743)
Finance costs	6(a)	(13,714)	(11,127)
Share of results of an associate		240	–
Loss before taxation	6	(94,812)	(53,870)
Income tax credit	7	7,591	940
Loss for the period		(87,221)	(52,930)
Attributable to:			
Owners of the Company		(81,795)	(52,930)
Non-controlling interests		(5,426)	–
		(87,221)	(52,930)
		HK cents	HK cents (restated)
Loss per share	9		
— Basic		(2.60)	(3.37)
— Diluted		(2.60)	(3.37)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(87,221)	(52,930)
Other comprehensive loss for the period		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas and PRC subsidiaries	(15,484)	(9,900)
Total comprehensive loss for the period	(102,705)	(62,830)
Attributable to:		
Owners of the Company	(93,629)	(62,830)
Non-controlling interests	(9,076)	–
	(102,705)	(62,830)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

		As at 30 September 2016 HK\$'000 (Unaudited)	As at 31 March 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	106,495	80,484
Prepaid lease payment		8,767	9,163
Intangible assets	11	344,359	375,584
Goodwill	12	207,295	214,960
Interest in an associate		2,991	2,844
Available-for-sale investments		3,900	3,900
Derivative financial instruments	19	60,538	95,235
Deposits and prepayments	13	40,578	8,901
		774,923	791,071
Current assets			
Inventories		42,252	37,746
Trade and other receivables	13	319,216	277,994
Prepaid lease payments		201	207
Cash and cash equivalents		39,461	12,421
		401,130	328,368
Current liabilities			
Trade and other payables	14	86,296	84,229
Bank and other borrowings	15	109,064	137,333
Finance lease payables	16	146,949	71,146
Amount due to a director	21(a)	1	1
Current taxation		9,429	10,435
		(351,739)	(303,144)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 September 2016

		As at 30 September 2016 HK\$'000 (Unaudited)	As at 31 March 2016 HK\$'000 (Audited)
Net current assets		49,391	25,224
Total assets less current liabilities		824,314	816,295
Non-current liabilities			
Bank and other borrowings	15	3,484	3,600
Finance lease payables	16	266,179	355,523
Deferred tax liabilities		23,678	32,874
		(293,341)	(391,997)
Net assets		530,973	424,298
Capital and reserves			
Share capital	17	167,440	83,720
Reserves		313,247	281,216
Equity attributable to owners of the Company		480,687	364,936
Non-controlling interests		50,286	59,362
Total equity		530,973	424,298

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Warrant reserve HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2015 (Audited)	64,450	312,703	10,436	7,800	(90)	32,184	24,759	69,029	521,271	-	521,271
Loss for the period	-	-	-	-	-	-	-	(52,930)	(52,930)	-	(52,930)
Other comprehensive loss for the period	-	-	-	-	-	-	(9,900)	-	(9,900)	-	(9,900)
Total comprehensive loss for the period	-	-	-	-	-	-	(9,900)	(52,930)	(62,830)	-	(62,830)
Equity-settled share based payments	-	-	4,064	-	-	-	-	-	4,064	-	4,064
Issue of shares upon acquisition of a subsidiary (Note 18)	6,040	163,080	-	-	-	-	-	-	169,120	-	169,120
At 30 September 2015 (Unaudited)	70,490	475,783	14,500	7,800	(90)	32,184	14,859	17,706	631,595	-	631,595
At 1 April 2016 (Audited)	83,720	622,636	18,503	6,600	(90)	35,169	856	(402,458)	364,936	59,362	424,298
Loss for the period	-	-	-	-	-	-	-	(81,795)	(81,795)	(5,426)	(87,221)
Other comprehensive loss for the period	-	-	-	-	-	-	(11,834)	-	(11,834)	(3,650)	(15,484)
Total comprehensive loss for the period	-	-	-	-	-	-	(11,834)	(81,795)	(93,629)	(9,076)	(102,705)
Equity-settled share based payments	-	-	1,936	-	-	-	-	-	1,936	-	1,936
Issue of shares upon rights issue of shares (Note 17)	83,720	125,580	-	-	-	-	-	-	209,300	-	209,300
Share issuance costs	-	(1,856)	-	-	-	-	-	-	(1,856)	-	(1,856)
At 30 September 2016 (Unaudited)	167,440	746,360	20,439	6,600	(90)	35,169	(10,978)	(484,253)	480,687	50,286	530,973

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net cash used in operating activities	(41,550)	(37,298)
Investing activities		
Additions of property, plant and equipment	(32,031)	(2,913)
Interest received	353	44
Loan to an independent third party	(20,000)	–
Net cash inflow from acquisition of a subsidiary	–	8
Other investing cash flows	(65)	171
Net cash used in investing activities	(51,743)	(2,690)
Financing activities		
Proceeds from bank and other borrowings	30,693	32,400
Repayment of bank and other borrowings	(55,114)	(18,104)
Repayment of finance lease payables	(24,025)	(15,525)
Interest paid	(3,332)	(1,435)
Deposit paid for acquisition of additional equity interest in a subsidiary	(35,000)	–
Proceeds from issue of new shares	209,300	–
Other financing cash flows	(1,856)	(406)
Net cash from (used in) financing activities	120,666	(3,070)
Net increase (decrease) in cash and cash equivalents	27,373	(43,058)
Cash and cash equivalents at beginning of the period	12,421	54,064
Effect of foreign exchange rates changes	(333)	(311)
Cash and cash equivalents at end of the period, representing bank balances and cash	39,461	10,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. GENERAL

The Company was incorporated in the Cayman Islands on 11 October 2006 as an exempted company with limited liability. The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. 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 "Stock Exchange").

The Group is principally engaged in (i) the design, research and development, manufacture and sales of specialised communication systems, equipment and systems technologies, (ii) providing a total solution of specialised communication system, including digital trunking system, Very Small Aperture Terminal ("VSAT") satellite system and operation integrated system, (iii) provision of Synertone 1 satellite bandwidth capacity and communication service application, (iv) design, development and sale of automation control systems for industrial use, and (v) research and development, manufacture and sales of intelligent building system including video intercom and surveillance system for buildings across the PRC.

The principal operations of the Group are conducted in the PRC. The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the functional currency of the Company, as the directors consider that presenting in HK\$ is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to its immediate parent and ultimate holding company whose functional currency is HK\$.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial assets that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Accounting Standards (“**HKAS(s)**”) and Hong Kong Financial Reporting Standards (“**HKFRS(s)**”) (hereinafter collectively referred to as the “**revised HKFRSs**”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the above revised HKFRSs in the current interim period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. On adopting HKFRS 8, *Operating Segments*, and in a manner consistent with the way in which information is reported internally to the chief executive officer of the Company, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments:

Digital Trunking System: To meet the demand from governmental departments or agencies, public utilities institutions and business enterprises for public safety and emergency communication, we design digital trunking system, mainly consisting 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 for 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

3. SEGMENT REPORTING *(Continued)*

Synertone 1 Satellite System: This segment represents provision of satellite bandwidth capacity and communication service application.

Building Intelligence and Smart Home: Building intelligence and smart home segment provides customers with (i) video intercom system and security alarm solutions for residential complexes; and (ii) smart home automation systems for new and existing households.

Industrial Control System: Industrial control system segment provides customers with (i) automation hardware and software products, information systems platforms, as well as (ii) the industrial and monitoring and scheduling management system solutions for municipal utilities industry.

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

For the purposes of assessing segment performance and allocating resources among segments, the Group's chief executive officer monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments and other corporate assets which are unallocated to an individual reportable segment. Segment liabilities include trade and other payables attributable to the activities of the individual segments, bank and other borrowings and finance lease payables managed directly by the segments with the exception of 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

3. SEGMENT REPORTING (Continued)

The measure used for reporting segment results is adjusted earnings before interest and taxes (“**Adjusted EBIT**”). To arrive at the Adjusted EBIT, the Group’s earnings are further adjusted for items not specifically attributed to an individual reportable segment, such as fair value change on derivative financial instruments and unallocated corporate expenses.

Segment revenue and results

	For the six months ended 30 September 2016						Total HK\$'000 (Unaudited)
	Digital trunking system HK\$'000 (Unaudited)	VSAT satellite system HK\$'000 (Unaudited)	Synertone 1 satellite system HK\$'000 (Unaudited)	Building intelligence and smart home HK\$'000 (Unaudited)	Industrial control system HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	
Revenue from external customers	1,790	-	2,100	36,530	9,661	21	50,102
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	1,790	-	2,100	36,530	9,661	21	50,102
Reportable segment profit (loss) (Adjusted EBIT)	(10,997)	(3,985)	(16,589)	1,768	(3,112)	8	(32,907)
Fair value change on derivative financial instruments							(34,697)
Interest income							1
Finance costs							(13,714)
Unallocated corporate expenses							(13,495)
Consolidated loss before taxation							(94,812)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

3. SEGMENT REPORTING (Continued)

Segment revenue and results (Continued)

	For the six months ended 30 September 2015					Total HK\$'000 (Unaudited)
	Digital trunking system HK\$'000 (Unaudited)	VSAT satellite system HK\$'000 (Unaudited)	Synertone 1 satellite system HK\$'000 (Unaudited)	Industrial control system HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	
Revenue from external customers	23,421	196	8,413	4,723	354	37,107
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	23,421	196	8,413	4,723	354	37,107
Reportable segment profit (loss) (Adjusted EBIT)	(12,998)	(271)	(28,450)	(1,114)	2,798	(40,035)
Interest income						42
Finance costs						(11,127)
Unallocated corporate expenses						(2,750)
Consolidated loss before taxation						(53,870)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

3. SEGMENT REPORTING (Continued)

Segment assets and liabilities

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Assets		
Digital trunking system	318,413	224,781
VSAT satellite system	24,262	52,256
Synertone 1 satellite system	294,346	299,550
Industrial control system	208,360	226,577
Building intelligence and smart home	294,912	312,250
Total segment assets	1,140,293	1,115,414
Available-for-sale investments	3,900	3,900
Unallocated corporate assets	31,860	125
Consolidated total assets	1,176,053	1,119,439
Liabilities		
Digital trunking system	78,573	81,532
VSAT satellite system	4,622	6,997
Synertone 1 satellite system	410,060	423,574
Industrial control system	12,806	15,907
Building intelligence and smart home	133,972	149,645
Total segment liabilities	640,033	677,655
Amount due to a director	1	1
Unallocated corporate liabilities	5,046	17,485
Consolidated total liabilities	645,080	695,141

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

4. REVENUE

The principal activities of the Group are (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, VSAT satellite system and operation integrated system, (iii) provision of Synertone 1 satellite bandwidth capacity and communication services application, (iv) design, development and sale of automation control systems for industrial use and (v) research and development, manufacture and sales of intelligent building systems including video intercom and surveillance systems for building across the PRC.

Revenue represents the sales value (net of value-added and business taxes) of goods supplied to customers, less any goods returns and trade discounts. The amount of each significant category of revenue recognised during the period is as follows:

	For the six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Digital trunking system	1,790	23,421
VSAT satellite system	–	196
Synertone 1 satellite system	2,100	8,413
Building intelligence and smart home	36,530	–
Industrial control system	9,661	4,723
Other accessory parts and components	21	354
	50,102	37,107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

5. OTHER INCOME

	For the six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interest income on bank deposits <i>(note a)</i>	20	44
Interest income on loan receivable <i>(note a)</i>	333	–
Government grants <i>(note b)</i>	9,665	1,088
Value-added taxes refund <i>(note c)</i>	1,823	4,922
Recovery of bad debts written off	9,444	–
Sundry income	149	175
	21,434	6,229

Notes:

- (a) Interest income on bank deposits and loan receivable represents the total interest income on financial assets not at fair value through profit or loss ("FVTPL").
- (b) These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to "hi-tech enterprise".
- (c) Value-added taxes refund is recognised when the acknowledgement of refund from the PRC Tax Bureau has been received.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging (crediting):

(a) Finance costs

	For the six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Total interest expense on financial liabilities not at FVTPL:		
Interest expense on bank and other borrowings	3,332	1,435
Finance charges on finance lease payables	10,382	9,692
	13,714	11,127

(b) Other items

	For the six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Cost of inventories recognised as expense	28,083	7,280
Amortisation of intangible assets	28,082	37,919
Depreciation of property, plant and equipment	6,988	4,645
Reversal of write down of inventories	(2,433)	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

7. INCOME TAX CREDIT

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT") (note d)	–	1,270
Deferred tax		
Origination and reversal of temporary differences	(7,591)	(2,210)
	(7,591)	(940)

Notes:

- (a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.
- (b) Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the BVI subsidiaries of the Group are not subject to any income tax in the BVI.
- (c) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the period.
- (d) One of the PRC subsidiaries of the Group, 協同通信技術有限公司 (Synertone Communication Technology Limited) ("**Synertone Technology**"), being the foreign invested "encouraged hi-tech enterprise" was entitled to a preferential EIT rate of 15%. The period of grant of preferential EIT rate is valid for three years starting from 19 June 2015.

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Group, 萬科思自控信息(中國)有限公司 (Wankesi Automation Information (China) Co., Limited), is exempted from PRC EIT for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year was the year 2014.

Other PRC subsidiaries of the Group are subject to PRC EIT at a rate of 25% (2015: 25%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

7. INCOME TAX CREDIT *(Continued)*

Notes: (Continued)

- (e) Under the EIT Law of the PRC, with effect from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double taxation arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% upon government approval if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the State Administration of Taxation approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

Deferred tax liabilities have been recognised in respect of the withholding income tax on dividend to be paid out of undistributed earnings of the Group's PRC subsidiaries since 1 January 2008.

8. DIVIDENDS

During the six months ended 30 September 2016, no dividend was paid or proposed by the Company, nor has any dividend been proposed since the end of the reporting period (six months ended 30 September 2015: Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$81,795,000 (six months ended 30 September 2015: HK\$52,930,000) and the weighted average number of 3,144,375,000 ordinary shares (six months ended 30 September 2015: 1,570,190,000 ordinary shares) in issue during the period.

The weighted average number of shares used in the calculation of basic loss per share for the six months ended 30 September 2015 has been adjusted for the effect of share consolidation during the year ended 31 March 2016 and the shares issued under rights issue completed on 28 April 2016 (Note 17).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

9. LOSS PER SHARE *(Continued)*

(b) Diluted loss per share

The calculation of the diluted loss per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Earnings		
Loss attributable to owners of the Company	(81,795)	(52,930)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	3,144,375	1,570,190
Adjustment for share options	–	–
Adjustment for warrants	–	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	3,144,375	1,570,190

For the six months ended 30 September 2016 and 2015, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options and warrants as the exercise prices of such share options and warrants were higher than the average market price per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2016, the Group spent approximately HK\$35,356,000 (six months ended 30 September 2015: HK\$2,913,000) on additions to property, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

11. INTANGIBLE ASSETS

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Technical know-how for digital trunking system <i>(note a)</i>	997	1,866
Administrative system costs	171	174
Rights to use Synertone 1 satellite bandwidth <i>(note b)</i>	252,185	271,394
Safe communication technologies softwares <i>(note c)</i>	25,504	28,000
Patents and software <i>(note d)</i>	50,592	56,957
Trademark <i>(note d)</i>	3,261	3,774
Customer relationship <i>(note e)</i>	11,649	13,419
	344,359	375,584

Notes:

- (a) Technical know-how for digital trunking system represents technical know-how acquired by the Group in relation to the production of specialised communication systems.
- (b) It represents the possession of the resources of Synertone 1 for the provision of the application of the satellite bandwidth capacity and communication service application.
- (c) Safe communication technology softwares and patents represent the softwares and patent technologies in relation to the provision of a safe communication environment for end users.
- (d) Patents and software and trademarks related to automation control systems acquired by the Group for building intelligence and smart home and industrial control system during the year ended 31 March 2016.
- (e) It represents customer relationship under building intelligence and smart home business and industrial control system business.

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 FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

12. GOODWILL

The carrying amount of goodwill as at 30 September 2016 has been allocated to three individual cash generating units (“CGUs”) as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Provision of safe communication technologies	1,965	2,799
Building intelligence and smart home	18,420	19,033
Industrial control system	186,910	193,128
	207,295	214,960

During the six months ended 30 September 2016, management of the Group determines that the CGUs containing goodwill have not been impaired.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

13. TRADE AND OTHER RECEIVABLES

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade receivables (<i>notes a, b and c</i>)	188,038	198,234
Less: Allowance for doubtful debts	(57,773)	(61,207)
	130,265	137,027
Bills receivable	697	349
Advance to suppliers	44,949	25,812
Loan receivable (<i>note d</i>)	20,000	–
Other taxes receivables	3,345	2,929
Other receivables	86,699	94,016
Prepayment for acquisition of property, plant and equipment	5,578	8,901
Deposit for acquisition of additional equity interest in a subsidiary (<i>note e</i>)	35,000	–
Other prepayments and deposits	33,261	17,861
	359,794	286,895
Analysed for reporting purposes as:		
Non-current assets	40,578	8,901
Current assets	319,216	277,994
	359,794	286,895

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

13. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

- (a) For certain contracts, retention money representing 5% to 10% of the contract is not due until the warranty period expires, which varies from one year to two years. Included in trade receivables as at 30 September 2016 is retention money of HK\$255,000 (31 March 2016: HK\$294,000) which are expected to be recovered after the warranty period.
- (b) For the six months ended 30 September 2016, purchases of the Group's products by its customers are in general made on credit with credit period ranging from 30 to 180 days (31 March 2016: 30 to 180 days). A longer credit period of 181 to 365 days (31 March 2016: 181 to 365 days) may be granted to customers with long term business relationship, established reputation and good repayment history. The credit terms of each customer of the Group are determined by the Group's sales team and are subject to review and approval by the Group's management based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group.
- (c) The ageing analysis of trade receivables based on invoice date is as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
0-60 days	5,239	19,368
61-90 days	4,543	6,040
91-180 days	11,433	36,258
181-365 days	36,800	58,555
Over 365 days	130,023	78,013
	188,038	198,234
Less: Allowance for doubtful debts	(57,773)	(61,207)
	130,265	137,027

- (d) Loan receivable represents the amount advanced to an independent third party which is unsecured, interest bearing at 5% per annum and recoverable within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

13. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

- (e) On 29 June 2016, the Group entered into the sales and purchase agreement (the “**Further Acquisition S&P**”) with independent third parties (the “**Vendors**”) to further acquire an aggregate of 36% equity interest in Sense Field Group Limited (“**Sense Field**”) for a cash consideration of HK\$130,000,000. During the six months ended 30 September 2016, deposit of HK\$35,000,000 has been paid pursuant to terms of the Further Acquisition S&P. Completion of the acquisition is subject to, among others, approval by independent shareholders in an extraordinary general meeting of the Company to be held after the end of the reporting period.

As at 30 September 2016, Sense Field was held as to 49% (31 March 2016: 49%) by the Group. According to the shareholders’ agreement signed between the Vendors and the Group in December 2015, the Group would have a right to subscribe further equity interests in Sense Field. The currently exercisable purchased call option, if exercised, would give, in aggregate, the Group over 51% voting power over Sense Field. Based on the director’s assessment, the currently exercisable purchased call option provided the Group with the potential voting rights over Sense Field which in turn provided the Company with the ability to control Sense Field and its subsidiaries (together the “**Sense Field Group**”). In preparing the Group’s condensed consolidated financial statements for the six months ended 30 September 2016, Sense Field Group was consolidated as subsidiaries in accordance with HKFRS 10 *Consolidated Financial Statements*.

14. TRADE AND OTHER PAYABLES

	30 September 2016 HK\$’000 (Unaudited)	31 March 2016 HK\$’000 (Audited)
Trade payables	29,548	26,036
Bill payables	5,648	4,026
Accrued salaries	4,239	4,784
Accrued expenses and other payables	10,219	13,611
Payable for acquisition of a subsidiary	27,000	27,000
Financial liabilities measured at amortised cost	76,654	75,457
Deposits received from customers	4,736	4,681
Other tax payables	4,906	4,091
	86,296	84,229

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

14. TRADE AND OTHER PAYABLES *(Continued)*

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

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
0–60 days	4,304	2,472
61–90 days	4,711	1,145
91–180 days	2,534	1,898
181–365 days	956	5,962
Over 365 days	17,043	14,559
	29,548	26,036

15. BANK AND OTHER BORROWINGS

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Bank borrowings		
— secured	89,318	97,090
— unsecured	23,230	32,643
Unsecured other borrowings	–	11,200
	112,548	140,933

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

15. BANK AND OTHER BORROWINGS *(Continued)*

As at 30 September 2016, bank and other borrowings were due for repayment as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Repayable within 1 year	109,064	137,333
Repayable after 1 year	3,484	3,600
	112,548	140,933

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 to demand at its sole discretion 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, keeps track of the scheduled repayments of the term loans and considers that the bank is unlikely to exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 September 2016, none of the covenants relating to drawn down facilities had been breached (31 March 2016: HK\$Nil).

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

All the bank and other borrowings are fixed-rate borrowings which carry interest at prevailing interest rates of 4.79%–7.20% per annum for the period ended 30 September 2016 (31 March 2016: 4.30%–6.50% per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

16. FINANCE LEASE PAYABLES

As at 30 September 2016, the Group had obligation under finance leases repayable as follows:

	30 September 2016		31 March 2016	
	Present value of minimum lease payments HK\$'000 (Unaudited)	Total minimum lease payments HK\$'000 (Unaudited)	Present value of minimum lease payments HK\$'000 (Audited)	Total minimum lease payments HK\$'000 (Audited)
Within 1 year	146,949	149,855	71,146	98,123
After 1 year but within 2 years	65,131	71,001	55,504	70,983
After 2 years but within 5 years	178,141	211,507	181,016	212,054
After 5 years	22,907	46,537	119,003	125,862
	266,179	329,045	355,523	408,899
	413,128	478,900	426,669	507,022
Less: total future interest expenses		(65,772)		(80,353)
Present value of lease obligations		413,128		426,669

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

17. SHARE CAPITAL

	30 September 2016		31 March 2016	
	No. of shares '000	Amount HK\$'000 (Unaudited)	No. of shares '000	Amount HK\$'000 (Audited)
Authorised:				
At beginning of the period/year				
Ordinary shares of HK\$0.01 each	-	-	20,000,000	200,000
Ordinary shares of HK\$0.05 each	8,000,000	400,000	-	-
Increase during the period/year	-	-	4,000,000	200,000
Share consolidation	-	-	(16,000,000)	-
At end of the period/year				
Ordinary shares of HK\$0.01 each	-	-	-	-
Ordinary shares of HK\$0.05 each	8,000,000	400,000	8,000,000	400,000
Issued and fully paid:				
At beginning of the period/year				
Ordinary shares of HK\$0.01 each	-	-	6,445,000	64,450
Ordinary shares of HK\$0.05 each	1,674,400	83,720	-	-
Issue of shares upon acquisition of subsidiaries	-	-	1,927,000	19,270
Share consolidation	-	-	(6,697,600)	-
Issue of shares upon rights issue (note)	1,674,400	83,720	-	-
At end of the period/year				
Ordinary shares of HK\$0.01 each	-	-	-	-
Ordinary shares of HK\$0.05 each	3,348,800	167,440	1,674,400	83,720

Note: During the six months ended 30 September 2016, the Company issued 1,674,400,000 new shares upon completion of the rights issue on the basis of one rights share for every one ordinary share in issue at the subscription price of HK\$0.125 per rights share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

18. ACQUISITION OF A SUBSIDIARY

For the six months ended 30 September 2015

On 30 June 2015, Vastsuccess Holdings Limited, a wholly-owned subsidiary of the Company, entered into the sales and purchase agreement with an independent third party, Mr. John Edward Hunt, for the acquisition of 100% equity interests in MOX Products Pty Limited ("**MOX**") at a consideration of HK\$302 million, which shall be satisfied by the allotment and issue of 604,000,000 consideration shares at the issue price of HK\$0.50 per consideration share upon completion.

MOX is an investment holding company and together with its wholly-owned subsidiaries, 悉雅特萬科思自動化(杭州)有限公司 (Xiyate Wankesi Automation (Hangzhou) Company Ltd.) and 萬科思自動化(上海)有限公司 (Wankesi Automation (Shanghai) Company Ltd.) (together the "**MOX Group**"), are mainly engaged in the design, development and sales of automation control systems for industrial use. The directors of the Company are of the opinion that through the acquisition, the Group be able to broaden its customer base by integrating the existing customers of the MOX Group which have strong demand for the Group's existing products and the automation control systems provided by MOX Group would become more reliable and efficient with the support of Synertone 1 satellite bandwidth.

The acquisition was completed on 17 July 2015. A total of 604,000,000 consideration shares were issued to Mr. John Edward Hunt.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

18. ACQUISITION OF A SUBSIDIARY (Continued)

For the six months ended 30 September 2015 (Continued)

Assets acquired and liabilities recognised at the date of acquisition

	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	516
Intangible assets	6,333
Inventories	5,220
Trade and other receivables	18,427
Cash and cash equivalents	8
Trade and other payables	(63,639)
Deferred tax liabilities	(1,580)
	<hr/>
Total identifiable net liabilities at fair value	(34,715)
Goodwill arising on acquisition	203,835
	<hr/>
	169,120

Consideration transferred

	HK\$'000
Issue of consideration shares	169,120

Net cash flows on acquisition of a subsidiary

	HK\$'000
Cash consideration paid	–
Less: Cash and cash equivalent acquired	8
	<hr/>
	8

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

18. ACQUISITION OF A SUBSIDIARY *(Continued)*

Acquisition-related costs amounting to approximately HK\$599,000 have been excluded from the consideration transferred and have been recognised as an expense for the current year, within the “administrative and other operating expenses” line item in the consolidated statement of profit or loss.

The goodwill of approximately HK\$203,835,000 arising from the acquisition is attributable to the anticipated cash flows from the future operating synergies through the combination the automation control systems provided by MOX Group with the support of Synertone 1 satellite bandwidth. None of the goodwill recognised is expected to be deductible for income tax purposes.

At the acquisition date, the gross contractual amount of receivables acquired in this transaction, including trade receivables of HK\$15,238,000, note receivables of HK\$367,000 and other receivables of HK\$106,000, were equivalent to their fair value of HK\$15,711,000 and it was expected that all amounts were fully collectible.

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of each reporting period on a recurring basis. The following table gives information about the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset of liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2016

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(Continued)

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management and the audit committee. Discussions of valuation processes and results are held between the management, the audit committee and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

	30 September 2016			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Financial assets at FVTPL				
Derivative financial instruments				
— Call option	—	—	60,538	60,538

	31 March 2016			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Audited)
Financial assets at FVTPL				
Derivative financial instruments				
— Call option	—	—	95,235	95,235

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during both periods.

The main Level 3 inputs used by the Group in estimating the call option are gross development value, time to maturity, interest rate, and expected volatility. The fair value of the call option was calculated using the Binomial option pricing model by assuming the present value of business value for Sense Field, based on discounted cash flow forecast provided by management of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(Continued)

The key inputs to the Binomial option pricing model is as follows:

	30 September 2016	31 March 2016
Exercise price (HK\$'000)	130,000	133,000
Risk free rate (%)	0.403	0.436
Expected option period (year)	1.209	1.710
Expected volatility (%)	76.39	83.445

Risk free rate of interest was used based on the market yield of Hong Kong government bond with similar maturity to the call option as of the valuation date and the volatility was estimated based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise.

The movements in the balance of Level 3 fair value measurements during the period are as follows:

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
At beginning of period	95,235	–
Total losses recognised in profit or loss	(34,697)	–
At end of period	60,538	–

Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

20. COMMITMENTS

- (a) As at 30 September 2016, the Group had the following capital commitments:

	30 September	31 March
	2016	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
<hr/>		
Contracted but not provided for in the condensed consolidated financial statements:		
— Acquisition of plant and machinery	57,258	89,008
— Renovation of new office	1,670	1,726
	<hr/>	<hr/>
	58,928	90,734
	<hr/>	<hr/>

- (b) As at 30 September 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September	31 March
	2016	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
<hr/>		
Within one year	5,668	3,743
In the second to fifth year inclusive	16,846	9,239
	<hr/>	<hr/>
	22,514	12,982
	<hr/>	<hr/>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for an average term of 1 to 10 years during which rentals are fixed. None of the leases includes contingent rentals.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

21. RELATED PARTY TRANSACTIONS AND BALANCES

The Group entered into the following significant transactions with its related parties during the period:

(a) Balances with related parties

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

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Amount due to a director		
Wong Chit On	1	1

The amount is unsecured, interest free and repayable on demand.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the period is as follows:

	For the six months ended 30 September 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Salaries and other short term benefits	3,506	5,302
Equity-settled share based payments	305	1,623
Post-employment benefits	36	79
	3,847	7,004

The remuneration of directors and other key executives is determined having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 September 2016

21. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Guarantee

At the end of each reporting period, a personal guarantee was given by a director for the purchase of motor vehicles under finance lease through financial institutions with the carrying amount of finance lease payables as follows:

	30 September	31 March
	2016	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Finance lease payables guaranteed by a director	4,108	4,600

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a satellite resource operator in research and development and manufacturing satellite equipment, as well as a provider of information network solutions. The Group provides customers with (i) the satellite bandwidth capacity and the bandwidth capacity service; (ii) the right to use for the transmission of satellite broadband Internet access and other applications; (iii) core components of and solutions to specialised communication systems; and (iv) earth-terminal infrastructure of and information network solutions to satellite communication systems. Thanks to its self-initiated research and development efforts and through the acquisition of the related customer resources, intellectual property rights and technical know-how from third parties, the Group designs and develops products and technologies related to digital trunking systems and satellite communications systems.

The Group is principally engaged in five major businesses, namely (i) the digital trunking system business; (ii) the VSAT satellite system business; (iii) Synertone 1 satellite system business; (iv) the building intelligence and smart home business; and (v) the industrial control system business.

For the six months ended 30 September 2016, the Group's turnover was approximately HK\$50.1 million, representing an increase of approximately HK\$13.0 million or 35.0% when compared to approximately HK\$37.1 million for the six months ended 30 September 2015. It was mainly contributed by the building intelligence and smart home business operated by Sense Field Group which were acquired by the Group in the second half of the preceding financial year. For the six months ended 30 September 2016, the Group's turnover from building intelligence and smart home business was approximately HK\$36.5 million, accounting for 72.9% of its total turnover.

On the other hand, turnover from digital trunking system and Synertone 1 satellite system businesses decreased due to adjustments were made to certain business markets and opportunities in light of the comprehensive upgrade measures for the satellite resources network by the Group during the period so as to avoid the potential huge compensation cost derived from the change in services.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

On 16 December 2015, the Group completed the acquisition of 49% equity interest in Sense Field for the access to and the expansion of Synertone 1 satellite service business by utilizing domestic sales network and customer resources of Sense Field Group as well as its research and production base located in the Yangtze River Delta. On 29 June 2016, the Group entered into the sale and purchase agreement with the vendors to further acquire an aggregate of 36% equity interest in Sense Field for a cash consideration of HK\$130 million ("**Proposed Further Acquisition**"). As at the date of this report, the Proposed Further Acquisition has not been completed.

PROSPECTS

The Group has commenced the upgrade for Synertone 1 satellite's gateway system since November 2015. The upgrade does not only meet the market requirements, but can also increase the total bandwidth of the Synertone 1 satellite system from 12Gbps to around 20Gbps. Besides, with the network management system (NMS) to be upgraded also, the Group is capable of developing a new NMS and operations support system (OSS), evolving the business mode, and expanding the market of the Synertone 1 satellite system from B2B business to B2C business.

The upgrade of gateway system will be implemented in phases. In April 2016, the Group has set up a demonstration system to do market promotions. The first phase is expected to be finished in the fourth quarter of 2016, and by then one third of the total bandwidth will be upgraded. With the upgraded bandwidth, the Group can enter market fields which they could not enter before, such as 4G backhaul, connectivity for high speed rail and etc. In phase 2 and 3, the Group will upgrade the rest of the bandwidth, build a comprehensive satellite communication network and evolve the business model from B2B to B2C business. The Company expects that, after the upgrade has been completed, the revenue generated from the Synertone 1 satellite system will resume to the previous level and may further increase.

On 24 November 2016, the Company entered into a non-exclusive manufacturing agreement with a cooperating partner ("**Manufacturing Agreement**"), pursuant to which the cooperating partner grants a non-exclusive license to the Company to manufacture certain of its products including the "Capricorn" and "Gemini" VSAT's as set out in the Manufacturing Agreement (the "**Products**"), and the right to manufacture and sell the Products to the Company's customers using the services of the "Synertone 1" satellite within the territory of the PRC including Hong Kong, Macau and Taiwan. The Company considers that the entering into of the Manufacturing Agreement represents a good opportunity for the Group to fully utilize its manufacturing facility, enhance its product capability and services enabling the Group to further expand its business and revenue base.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

In the short term, the Company expects that revenue generated from the Synertone 1 satellite system will decrease for a period of time until the abovementioned upgrade shall have been completed, and expects that there will be difficulties in yielding considerable revenue during the year. The Company is striving for comprehensive market opportunities for its business development through identifying more channels and markets in various ways, and is planning to launch new satellite system products in line with the high-speed resources and information services under the fully upgraded Synertone 1 satellite system in the coming year. The Company is confident of its business planning and development. It is expected that the Company's continuous innovation and efforts will present it a brand new image in the coming year.

FINANCIAL REVIEW

Turnover

The Group recorded turnover of approximately HK\$50.1 million for the six months ended 30 September 2016, representing an increase of approximately HK\$13.0 million or 35.0% as compared with that of approximately HK\$37.1 million for the corresponding period last year. The increase was mainly attributable to (1) the sales of approximately HK\$36.5 million from building intelligence and smart home business for the six months ended 30 September 2016, as compared with nil recorded during the six months ended 30 September 2015; and (2) the drop in sales of digital trunking systems by approximately HK\$21.6 million or 92.3% from approximately HK\$23.4 million for the six months ended 30 September 2015 to approximately HK\$1.8 million for the six months ended 30 September 2016.

Gross Profit (Loss)

The Group's gross profit for the six months ended 30 September 2016 was approximately HK\$1.8 million, as compared with gross loss of approximately HK\$6.7 million for the six months ended 30 September 2015. There was an increase in the overall gross profit margin from approximately (18.0)% to 3.6%, mainly as a result of (1) gross profit contributed by the building intelligence and smart home business of the Sense Field Group; and (2) the substantial drop in the amortisation costs of Synertone 1 satellite bandwidth.

Other Income

Other income of the Group increased by approximately HK\$15.2 million or 245.2% from approximately HK\$6.2 million for the six months ended 30 September 2015 to approximately HK\$21.4 million for the six months ended 30 September 2016. The increase was mainly due to the increase in government grants received by the Group and recovery of bad debts written off in prior years.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Fair Value Change on Derivative Financial Instruments

The loss on fair value change on derivative financial instruments was approximately HK\$34.7 million for the six months ended 30 September 2016, as compared with nil in the corresponding period last year. Derivative financial instruments represent the currently exercisable purchased call option over 51% voting power over Sense Field.

Selling and Distribution Expenses

For the six months ended 30 September 2016, the selling and distribution expenses of the Group amounted to approximately HK\$7.6 million, representing an increase of 196.7% as compared with that of approximately HK\$2.6 million for the six months ended 30 September 2015. The increase was mainly attributable to Sense Field Group which was acquired by the Group in the second half of the preceding financial year.

Administrative Expenses

The administrative expenses of the Group increased by approximately HK\$17.0 million or 56.9% from approximately HK\$29.7 million for the six months ended 30 September 2015 to approximately HK\$46.7 million for the six months ended 30 September 2016. The increase is mainly attributable to MOX Group and the Sense Field Group which were acquired by the Group during the year ended 31 March 2016.

Research and Development Expenditure

The research and development expenditure of the Group increased by approximately HK\$5.6 million or 55.9% from approximately HK\$10.0 million for the six months ended 30 September 2015 to approximately HK\$15.6 million for the six months ended 30 September 2016, mainly attributable to Sense Field Group which was acquired in the second half of preceding financial year.

Finance Costs

The finance costs of the Group arise from bank and other borrowings as well as finance lease payables in relation to the acquisition of Synertone 1 satellite bandwidth resources and motor vehicles. The Group's finance costs increased by approximately HK\$2.6 million or 23.4% from approximately HK\$11.1 million for the six months ended 30 September 2015 to approximately HK\$13.7 million for the six months ended 30 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Income Tax Credit

The income tax credit of the Group increased by approximately HK\$6.7 million or 744.4% from approximately HK\$0.9 million for the six months ended 30 September 2015 to approximately HK\$7.6 million for the six months ended 30 September 2016. It was mainly attributable to the decrease of the PRC income tax charge due to loss from operations, and reversal of temporary differences arising on fair value adjustments on property, plant and equipment and intangible assets.

Loss for the Period

The Group recorded a loss of approximately HK\$87.2 million for the six months ended 30 September 2016, as compared with the loss of approximately HK\$52.9 million for the six months ended 30 September 2015, mainly due to the loss on fair value change on derivative financial instruments and the decrease in turnover from digital trunking system business and Synertone 1 satellite system business as compared to the corresponding period last year.

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 of the Company (the “Shareholders”). In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings.

For the six months ended 30 September 2016, the net cash used in operating activities, net cash used in investing activities, and net cash generated from financing activities were HK\$41.6 million (compared to HK\$37.3 million for the corresponding period last year), HK\$51.7 million (compared to HK\$2.7 million for the corresponding period last year), and HK\$120.7 million (compared to net cash used in financing activities of HK\$3.1 million for the corresponding period last year), respectively.

On 28 April 2016, the Company completed the rights issue of 1,674,400,000 new shares of the Company at the subscription price of HK\$0.125 per rights share (the “Rights Issue”). The net proceeds from the Rights Issue after deducting all necessary expenses were approximately HK\$207 million, which are intended to be used (i) as to approximately HK\$130 million for the Proposed Further Acquisition of further 36% equity interest in the Sense Field Group; and (ii) as to the remaining balance of approximately HK\$77 million for general working capital of the Group. As at 30 September 2016, HK\$35 million was paid by the Group as payment of deposit for the Proposed Further Acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.14 as at 30 September 2016 (31 March 2016: approximately 1.08). The gearing ratio, calculated by total borrowings (comprising bank and other borrowings and finance lease payables), net of cash and cash equivalents, over total equity, was 92% as at 30 September 2016 (31 March 2016: 131%).

On 22 September 2014, the Group completed the issue of 660,000,000 warrants to Citic Capital Management Limited at the issue price of HK\$0.01 per warrant (restated to 196,666,667 warrants following the share consolidation which came into effect on 24 March 2016 and the Rights Issue completed on 28 April 2016). Each warrant carries the right to subscribe for one warrant share at the subscription price of HK\$1.98 (subject to adjustment). Such warrants can be exercised at any time during the exercise period of five (5) years commencing from the date of issue. During the six months ended 30 September 2016, the warrants were not yet exercised.

Bank and Other Borrowings

As at 30 September 2016, the Group had outstanding bank and other borrowings of HK\$112.5 million (31 March 2016: HK\$140.9 million).

Pledge of Assets

As at 30 September 2016, the Group had land use rights and property, plant and equipment in aggregate carrying value of HK\$56.7 million (31 March 2016: HK\$60.0 million) pledged against bank borrowings raised by the Group and finance lease payables.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 September 2016.

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. The Group's related policies are implemented after thorough and extensive consideration on liquidity risk, financing cost and exchange rate risk is made.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Foreign Exchange Risk

Substantially all transactions of the Group are denominated in RMB, United States dollars and Hong Kong dollars and most of the bank deposits are held 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 remained stable throughout the period, the Directors believe that the Group's potential foreign exchange exposure was limited. Moreover, the existing operation activities of the Company is mainly located in mainland China. 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 2016.

MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 September 2016, except the Proposed Further Acquisition disclosed above, the Group did not have any other material acquisitions and disposals of subsidiaries, associates and joint ventures.

EMPLOYEE AND REMUNERATION POLICY

As at 30 September 2016, the Group had 457 employees (31 March 2016: 465). For the six months ended 30 September 2016, the staff cost of the Group was approximately HK\$26.7 million, which increased by approximately HK\$6.6 million or 32.8% as compared to HK\$20.1 million for the corresponding period last year, mainly due to the increase in staff level upon completion of the acquisitions of MOX and Sense Field during the preceding financial year.

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 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 also adopted a share option scheme and eligible participants of which may be granted the share options to subscribe for the shares of the Company.

The Group has been committing resources to 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, ranging from technical training for production staff to financial and administrative trainings for management staff.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: nil).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 September 2016, 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 shares/ underlying shares held	Approximate percentage of shareholding
Mr. Wong Chit On	Interest of a controlled corporation	1,194,710,296 (Note)	35.68%

Note:

These interests in shares of the Company are held by Excel Time Investments Limited ("**Excel Time**"), which is wholly and beneficially owned by Mr. Wong Chit On, the chairman and an executive Director of the Company. By virtue of the SFO, Mr. Wong Chit On is deemed to be interested in these 1,194,710,296 shares. Mr. Wong Chit On is the sole director of Excel Time.

OTHER INFORMATION (Continued)**(B) Long Positions in the Shares of Associated Corporations**

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

(C) Long Positions in Share Options

Name of Directors	Date of grant	Exercise price (HK\$)	Exercisable period	Outstanding as at 30.09.2016
Mr. Wong Chit On	24.12.2013	2.060	24.12.2015–23.12.2018	1,456,604
Mr. Han Weining	24.12.2013	2.060	24.12.2015–23.12.2018	1,456,604
Mr. Lam Ying Hung Andy	24.12.2013	2.060	24.12.2015–23.12.2018	1,456,604
Mr. Hu Yunlin	24.12.2013	2.060	24.12.2015–23.12.2018	1,456,604

Save as disclosed above, as at 30 September 2016, 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.

OTHER INFORMATION (Continued)**INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES/OTHER PERSONS RECORDED IN THE REGISTER KEPT UNDER SECTION 336 OF THE SFO**

As at 30 September 2016, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Long Position in Shares

Name of Shareholder	Capacity/ Nature of interest	Number of shares/ underlying shares held	Approximate percentage (%) of issued shares (Note 1)
Excel Time	Beneficial owner	1,194,710,296 (Note 2)	35.68%
CITIC Capital Management Limited	Beneficial owner	196,666,667 (Note 3)	5.87%

Notes:

- Based on 3,348,800,000 shares of the Company in issue as at 30 September 2016.
- Excel Time is wholly owned by Mr. Wong Chit On, the Chairman and an executive Director of the Company whose interest in shares or underlying shares of the Company is set out in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations".
- On 22 September 2014, 660,000,000 warrants of the Company were granted to CITIC Capital Management Limited, entitling the holder thereof to subscribe for 660,000,000 shares of HK\$0.01 each in the share capital of the Company before the share consolidation which became effective on 24 March 2016 (restated to 196,666,667 shares of HK\$0.05 each in the share capital of the Company following the aforesaid share consolidation and the completion of the Rights Issue).

OTHER INFORMATION *(Continued)*

Save as disclosed above, as at 30 September 2016, 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 of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

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, any of its subsidiaries or any Invested Entity; (ii) any non-executive Director (including any independent non-executive Director), any of its subsidiaries or any Invested Entity; (iii) any Shareholder, 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 preapproved 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.

OTHER INFORMATION (Continued)

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.

Details of the movement in the share options granted under the Share Option Scheme during the period under review are as follows:

Category of participants	Date of grant of share option	Exercise Period (Note 1)	Exercise price (HK\$) (Note 2)	Outstanding	Granted	Cancelled	Lapsed	Adjustment due to completion of the Rights Issue	Outstanding
				as at 01.04.2016	during the period under review	during the period under review	during the period under review	of the Rights Issue (Note 2)	as at 30.09.2016
Directors									
Mr. Wong Chit On	24.12.2013	24.12.2015-23.12.2018	2.060	1,200,000	-	-	-	256,604	1,456,604
Mr. Han Weining	24.12.2013	24.12.2015-23.12.2018	2.060	1,200,000	-	-	-	256,604	1,456,604
Mr. Lam Ying Hung									
Andy	24.12.2013	24.12.2015-23.12.2018	2.060	1,200,000	-	-	-	256,604	1,456,604
Mr. Hu Yunlin (Note 3)	24.12.2013	24.12.2015-23.12.2018	2.060	1,200,000	-	-	-	256,604	1,456,604
Sub-total				4,800,000	-	-	-	1,026,416	5,826,416
Employees									
In aggregate	24.12.2013	24.12.2015-23.12.2018	2.060	39,800,000	-	-	(19,152,956)	8,485,030	29,132,074
Other Participants									
In aggregate	24.12.2013	24.12.2015-23.12.2018	2.060	24,000,000	-	-	-	5,132,076	29,132,076
Total				68,600,000	-	-	(19,152,956)	14,643,522	64,090,566

Notes:

- The option period of the options granted on 24 December 2013 is 5 years whereas the vesting period is 2 years. 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.
- Number of shares of the Company that can be subscribed for upon exercise of the outstanding share options stated in table above and exercise price are restated taking into adjustments as a result of the completion of the Rights Issue which took place during the period under review.
- Resigned after the end of the period under review.

OTHER INFORMATION *(Continued)*

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors', chief executive's interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations" 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 September 2016.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

In accordance with Rule 13.51(B) of the Listing Rules, the changes to information required to be disclosed by the Directors subsequent to the date of annual report 2016 are set out below, details of which were disclosed in the Company's announcement dated 3 October 2016:

1. Mr. Hu Yunlin resigned as an independent non-executive Director with effect from 3 October 2016 and automatically ceased to act as the chairperson of the remuneration committee and a member of the audit committee and the nomination committee of the Company.
2. Ms. Li Mingqi was appointed as an independent non-executive Director, the chairperson of the remuneration committee and a member of the audit committee and the nomination committee of the Company with effect from 3 October 2016.

OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE PRACTICES

The Directors consider that throughout the six months ended 30 September 2016, the Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 to the Listing Rules, except for the following deviation:

Code provision E.1.2 *stipulates that the Chairman of the Board should attend the annual general meeting.*

Mr. Wong Chit On, the Chairman of the Board, was not able to attend the annual general meeting held on 30 September 2016 due to another important business meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct for securities transactions by Directors. All Directors have confirmed, following specific enquiries made by the Company, that they have complied with the required standards set out in the Model Code during the six months ended 30 September 2016.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference and revised from time to time to comply with the CG Code. The Audit Committee currently comprises three independent non-executive Directors, Mr. Lam Ying Hung Andy (as chairman), Mr. Wang Chen and Ms. Li Mingqi. The principal duties of the Audit Committee include the overview of the Company’s financial reporting system, risk management and internal control systems and financial information of the Group. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2016 have been reviewed by the Audit Committee.

OTHER INFORMATION *(Continued)*

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the six months ended 30 September 2016 and up to the date of this report.

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

Hong Kong, 30 November 2016

As at the date of this report, the executive Directors are Mr. Wong Chit On and Mr. Han Weining; and the independent non-executive Directors are Mr. Lam Ying Hung Andy, Mr. Wang Chen and Ms. Li Mingqi.