SIM Technology

SIM TECHNOLOGY GROUP LIMITED
晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 2000)

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board ("Board") of directors ("Directors") of SIM Technology Group Limited ("Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries ("Group") for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**1,429,022**	1,325,658
Cost of sales		**(1,264,547)**	(1,124,405)
Gross profit		**164,475**	201,253
Other income	*5*	**32,782**	32,926
Other gains and losses	*5*	**17,796**	(3,391)
Research and development expenses		**(39,642)**	(41,280)
Selling and distribution costs		**(63,937)**	(64,828)
Administrative expenses		**(58,672)**	(67,027)
Share of results of associates		**(811)**	(747)
Finance costs		**(2,957)**	(4,639)
Profit before taxation		**49,034**	52,267
Taxation	*6*	**(17,262)**	(19,518)
Profit for the period	*7*	**31,772**	32,749
Profit/(loss) for the period attributable to:			
Owners of the Company		**35,685**	31,012
Non-controlling interests		**(3,913)**	1,737
		31,772	32,749
Earnings per share (HK cents)	*9*		
Basic		**1.4**	1.2
Diluted		**1.4**	1.2

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
Profit for the period	*7*	**31,772**	32,749
Other comprehensive (expense) income for the period:			
Items that may be subsequently reclassified to profit or loss for the period:			
Fair value change on available-for-sale investment		**(79,593)**	–
Deferred tax arising from fair value change on available-for-sale investment		**19,898**	–
Items that will not be subsequently reclassified to profit or loss for the period:			
Exchange difference arising on translation to presentation currency		**8,111**	(5,026)
Other comprehensive expense for the period		**(51,584)**	(5,026)
Total comprehensive (expense) income for the period		**(19,812)**	27,723
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(18,115)**	26,846
Non-controlling interests		**(1,697)**	877
		(19,812)	27,723

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 HK$'000 (unaudited)	31 December 2016 HK$'000 (audited)
Non-current assets			
Investment properties		**363,909**	350,779
Properties, plant and equipment		**366,196**	376,914
Land use rights		**84,808**	84,185
Intangible assets		**177,504**	148,405
Deferred tax assets		**44,309**	43,719
Finance lease receivables		**264**	637
Interests in associates		**2,990**	3,800
Available-for-sale investments		**107,855**	187,448
Consideration receivable		**1,662**	1,621
		1,149,497	1,197,508
Current assets			
Inventories		**853,180**	737,417
Finance lease receivables		**3,365**	6,085
Properties under development for sale		**332,829**	359,130
Properties held for sale		**208,876**	167,355
Trade and notes receivables	*10*	**332,332**	258,321
Other receivables, deposits and prepayments		**345,225**	275,090
Amount due from an associate		**2,600**	2,000
Amounts due from non-controlling shareholders of subsidiaries		**11,633**	11,633
Consideration receivable		**694**	676
Entrusted loan receivables		**69,360**	112,700
Pledged bank deposits		**40,460**	76,636
Bank balances and cash		**265,191**	249,132
		2,465,745	2,256,175
Asset classified as held for sale		**–**	26,117
		2,465,745	2,282,292

	Notes	30 June 2017 HK$'000 (unaudited)	31 December 2016 HK$'000 (audited)
Current liabilities			
Trade and notes payables	*11*	**437,294**	374,218
Other payables, deposits received and accruals		**642,508**	423,995
Amounts due to non-controlling shareholder of a subsidiary		**36,530**	35,613
Bank borrowings		**199,476**	299,991
Derivative financial instruments		**7,588**	–
Tax payable		**28,353**	23,138
		1,351,749	1,156,955
Liability associated with asset classified as held for sale		–	24,794
		1,351,749	1,181,749
Net current assets		**1,113,996**	1,100,543
Total assets less current liabilities		**2,263,493**	2,298,051
Capital and reserves			
Share capital		**255,790**	255,790
Reserves		**1,754,136**	1,770,956
Equity attributable to owners of the Company		**2,009,926**	2,026,746
Non-controlling interests		**103,493**	105,801
Total equity		**2,113,419**	2,132,547
Non-current liabilities			
Deferred tax liabilities		**100,543**	111,638
Deferred income		**49,531**	53,866
		150,074	165,504
		2,263,493	2,298,051

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2017

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda (as amended) with limited liability.

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacturing, design and development and sale of handsets, solutions and intelligent terminals, wireless communication modules, carrying out internet of things business and intelligent manufacturing business and property development in the People's Republic of China ("PRC").

The functional currency of the Company is Renminbi ("RMB"). The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), as the Directors of the Company consider that it is a more appropriate presentation for a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and for the convenience of the shareholders.

The condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB that are mandatorily effective for the current interim period.

The amendments to IAS 7 "Disclosure initiative" apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold net of discounts and sales related taxes, interest income generated from equipment financial leasing to outsiders and service income generated from service provided to outsiders.

4. SEGMENT INFORMATION

Segment information is presented based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the executive directors, for the purpose of allocating resources to segments and assessing their performance.

During the six-month period ended 30 June 2017, the Group was organised into five (2016: five) reportable and operating segments, being sale of handsets, solutions and intelligent terminals, sale of wireless communication modules, internet of things business, intelligent manufacturing business and property development.

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended 30 June 2017
(Unaudited)

	Sale of handsets, solutions and intelligent terminals *HK$'000*	Sale of wireless communication modules *HK$'000*	Internet of things business *HK$'000* (Note)	Intelligent manufacturing business *HK$'000*	Property development *HK$'000*	Consolidated *HK$'000*
Revenue						
External sales	516,217	655,009	145,938	44,423	67,435	1,429,022
Segment profit (loss)	10,715	25,582	(8,686)	2,056	969	30,636
Other income and other gains and losses						37,817
Share of results of associates						(811)
Corporate expenses						(15,651)
Finance costs						(2,957)
Profit before taxation						49,034

For the six months ended 30 June 2016
(Unaudited)

	Sale of handsets, solutions and intelligent terminals *HK$'000*	Sale of wireless communication modules *HK$'000*	Internets of things business *HK$'000* (Note)	Intelligent manufacturing business *HK$'000*	Property development *HK$'000*	Consolidated *HK$'000*
Revenue						
External sales	687,030	331,019	121,613	73,463	112,533	1,325,658
Segment profit	8,404	25,255	181	5,687	4,922	44,449
Other income and other gains and losses						26,189
Share of results of associates						(747)
Corporate expenses						(12,985)
Finance costs						(4,639)
Profit before taxation						52,267

Note: The internet of things business is still in a developing stage in both periods. The revenue of this segment represents the income generated from equipment finance lease service, sale of goods to vending machine customers and franchisees, and provision of procurement agency service.

Segment result represents the financial result by each segment without allocation of gain from changes in fair values of investment properties, rental income, interest income, unallocated exchange (loss) gain, loss on disposal of property, plant and equipment, gain on disposal of an associate, fair value change on derivative financial instruments, share of results of associates, corporate expenses, finance costs and taxation.

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	30 June 2017 *HK$'000* **(unaudited)**	31 December 2016 *HK$'000* (audited)
Segment assets		
Sale of handsets, solutions and intelligent terminals	**800,774**	859,359
Sale of wireless communication modules	**732,319**	494,816
Internet of things business	**158,520**	185,400
Intelligent manufacturing business	**278,248**	232,582
Property development	**647,225**	597,743
Total segment assets	**2,617,086**	2,369,900
Unallocated assets	**998,156**	1,109,900
Total assets	**3,615,242**	3,479,800
Segment liabilities		
Sale of handsets, solutions and intelligent terminals	**340,583**	384,528
Sale of wireless communication modules	**246,483**	111,910
Internet of things business	**17,246**	11,011
Intelligent manufacturing business	**71,043**	67,822
Property development	**486,209**	299,548
Total segment liabilities	**1,161,564**	874,819
Unallocated liabilities	**340,259**	472,434
Total liabilities	**1,501,823**	1,347,253

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than investment properties, certain property, plant and equipment, certain land use rights, interests in associates, entrusted loan receivables, consideration receivable, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, bank balances and cash, available-for-sale investments, deferred tax assets, certain other receivables, deposits and prepayments, amount due from an associate and asset classified as held for sale. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments.

For the purposes of monitoring segment performances and allocating resources between segments, all liabilities are allocated to reportable and operating segments other than certain other payables, deposits received and accruals, tax payable, bank borrowings, derivative financial instruments, deferred tax liabilities and liability associated with asset classified as held for sale.

5. OTHER INCOME/OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Other income		
Refund of Value Added Tax ("VAT") *(Note)*	**5,876**	4,289
Government grants	**8,850**	7,761
Dividend income from available-for-sale investment	**171**	–
Interest income earned on bank balances	**1,082**	1,781
Interest income earned on entrusted loan receivables	**4,683**	3,746
Rental income (Less: outgoings of HK$1,103,000 (six months ended 30 June 2016: HK$1,658,000))	**11,956**	15,187
Others	**164**	162
	32,782	32,926
Other gains and losses		
Loss on disposal of property, plant and equipment	**(256)**	(713)
Net foreign exchange gain (loss)	**12,865**	(3,489)
Changes in fair values of investment properties	**4,051**	5,555
Gain on disposal of an associate	**8,736**	–
Loss on disposal of a subsidiary	**(8)**	–
Fair value change on derivative financial instruments	**(7,588)**	–
Net allowance for bad and doubtful debts	**(4)**	(4,744)
	17,796	(3,391)

Note:

Shanghai Simcom Limited and Shanghai Simcom Wireless Solutions Limited are engaged in the business of distribution of self-developed and produced software and the development of automated test equipment and software. Under the current PRC tax regulation, they are entitled to a refund of VAT paid for sales of self-developed and produced software and the development of automated test software in the PRC.

6. TAXATION

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	**(9,698)**	(12,778)
PRC Land Appreciation Tax	**(1,320)**	(2,251)
Overprovisions on PRC Enterprise Income Tax in previous years	**692**	985
Deferred tax charge	**(6,936)**	(5,474)
Taxation for the period	**(17,262)**	(19,518)

No provision for Hong Kong Profits Tax has been made for both periods as the Group has no assessable profits arising in Hong Kong.

PRC Enterprise Income Tax is calculated at the rate prevailing in the relevant districts of the PRC taking relevant tax incentives into account.

The provision of PRC Land Appreciation Tax is estimated according to the requirements set forth in the relevant tax laws and regulations of the PRC, which is charged at progressive rates ranging from 30% to 60% (six months ended 30 June 2016: 30% to 60%) of the appreciation value, with certain allowable deductions.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June 2017 HK$'000 (unaudited)	Six months ended 30 June 2016 HK$'000 (unaudited)
Profit for the period is arrived at after charging:		
Amortisation of intangible assets (included in cost of sales)	**88,651**	74,286
Less: Amount capitalised in development costs	**(1,734)**	(177)
	86,917	74,109
Amortisation of land use rights	**1,524**	1,578
Depreciation of property, plant and equipment	**29,983**	34,534
Less: Amount capitalised in development costs	**(1,610)**	(1,516)
	28,373	33,018
Staff costs including directors' emoluments	**137,314**	147,114
Share-based payments	**1,282**	1,452
Less: Amount capitalised in development costs	**(80,461)**	(62,612)
	58,135	85,954
Minimum operating lease rentals in respect of land and buildings	**6,890**	4,795
Less: Amount capitalised in development costs	**(1,952)**	(1,434)
	4,938	3,361
Costs of inventories recognised as an expense (included in cost of sales)	**1,205,543**	1,026,337
Costs of properties sold (included in cost of sales)	**59,004**	98,068

8. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	**35,685**	31,012
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,557,897**	2,557,897
Effect of dilutive potential ordinary shares – share options	**–**	2,469
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,557,897**	2,560,366

For the six months ended 30 June 2017, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise prices of these options were higher than the average market price of the shares of the Company for the period.

10. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods is 0-90 days.

The following is an aged analysis of trade receivables, net of allowance for bad and doubtful debts, as well as notes receivables presented based on the invoice dates at the end of the six months ended 30 June 2017 and 2016, which approximated the revenue recognition dates:

	As at 30 June 2017 *HK$'000* **(unaudited)**	As at 31 December 2016 *HK$'000* (audited)
Trade receivables		
0-30 days	**202,292**	164,342
31-60 days	**66,778**	31,917
61-90 days	**23,883**	26,616
91-180 days	**13,667**	14,260
Over 180 days	**36,076**	19,163
	342,696	256,298
Less: Accumulated allowances	**(22,388)**	(21,821)
	320,308	234,477
Notes receivables *(Note)*		
0-30 days	**11,682**	23,324
31-60 days	**196**	–
61-90 days	**146**	520
	12,024	23,844
Trade and notes receivables	**332,332**	258,321

Note: Notes receivables represent the promissory notes issued by banks received from the customers.

11. TRADE AND NOTES PAYABLES

The aged analysis of the Group's trade and notes payables at the end of the six months ended 30 June 2017 and 2016 presented based on the invoice dates for trade payables or dates of issuance for notes payables is as follows:

	As at 30 June 2017 *HK$'000* (unaudited)	As at 31 December 2016 *HK$'000* (audited)
0-30 days	**383,658**	327,308
31-60 days	**22,261**	21,918
61-90 days	**6,673**	9,316
Over 90 days	**24,702**	15,676
	437,294	374,218

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to the shareholders of the Company ("Shareholders") for the six months ended 30 June 2017 ("1H-2017").

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has continued to implement its strategy of business model's transformation, "shifting from the manufacturing industry to the information technology services industry, and from a product-oriented manufacturer to a service-oriented service provider". Looking back over the past few years, the Group's business positioning and development strategies after its business transformation have shown stable results. In the first half of 2017, the Group faced the challenging global economic environment, fluctuating exchange rates as well as intensifying market competition. Affected by these factors, the Group's revenue and gross profit from some of its core businesses have declined. Overall, the Group's profit attributable to the owners of the Company for the first half of 2017 increased by 15.1% when compared to the same period last year, despite the difficult business environment.

In handsets, solutions and intelligent terminals business, the Group has shifted from serving mid-to-low-end consumer to serving high-end differentiated consumer handset niches with a focus on industrial application and Internet of Things ("IOT") terminal markets in these few years. In the first half of 2017, the Group concentrated on the shipment of the differentiated and IOT terminal handset models and continued to scale back on its efforts in the mid-to-low-end consumer handset segment which has high risk, yet generates a low gross profit margin. The overall result was a notable drop in shipments and sales amount when compared to the same period last year. Moreover, the shipment of several product models, which were being massively produced in the second half of last year, including differentiated consumer and industrial application terminal handsets, continued in the first half of this year, but the gross profit margin of these products dropped significantly. Furthermore, many components from the upstream supply chain was in serious shortage and those price escalated starting from the second half of last year, leading to the rising cost of our products shipped and the decline of gross profit margin in the first half of this year. In addition, due to the rapid expansion of bike sharing market, demand for wireless communication module business increased. In order to tie in with the business operation, during 1H-2017, the Group re-allocated some resources from handset, solutions and intelligent terminals business to wireless communication modules business. As a result, segment expenses of wireless communication modules increased and segment expenses of handset, solutions and intelligent terminals business decreased during 1H-2017.

As the demand for wireless communication modules in both domestic and overseas markets increased, overall shipments, external sales amount and gross profit surged significantly by 205.5%, 97.9% and 32.0% respectively when compared to the same period of last year, within which 2G product applications had the greatest growth in the domestic bike sharing market. The Group successfully captured a large portion of the market share and demonstrated its obvious advantages in technology and marketing capabilities in the domestic bike sharing market. For the operating results during 1H-2017, shipment and sales amount of 2G products increased by multiples. The modules used for bike sharing achieved a large shipment volume but their average selling price ("ASP") and gross profit margin were very low. Consequently, the sales amount and gross profit of the entire module business segment achieved notable period-to-period growth whereas the gross profit margin recorded a significant period-to-period decline.

As for the automatic vending machines IOT business, the Group adjusted the development from the originally asset-heavy operation mode of directly managing operations and recruiting businesses for the financing of leasing investments to an one-stop-service asset-light Online-to-offline ("O2O") service platform since 2016. Apart from utilising its back-end systems to provide operators with data services, the Group has developed a comprehensive solution to provide one-stop transformation and upgrading services that target the existing outdated vending machines of the operators. As a result, the existing outdated vending machines originally with a cash payment function only, have been enhanced with the addition of various online payment functions and consolidated marketing capabilities, including points redemption, vouchers, effective marketing of fast-moving consumer goods, and advertisements.

During 1H-2017, the Group continued to actively develop its intelligent manufacturing business, increased investment and continued its efforts to advance three core technologies and developed more intelligent equipment. Concurrently, with the Chinese government's implementation of the financial de-leveraging policy, most of the manufacturers encountered difficulties in financing. They became prudent about significant investment in equipment and a large number of new products had not been launched for sale. Thus, the intelligent manufacturing business recorded a short-term downward trend. Besides, several companies engaged in providing automated solutions that were acquired by the Group two years ago turned from making a profit to loss. This sluggish performance of the intelligent automation business was one of the reasons leading to the drop of actual sales performance and gross profit in the intelligent manufacturing business.

Handsets, solutions and intelligent terminals business

After several years of implementing strategic transformation, the new business direction of the Group's handsets, solutions and intelligent terminals business has gained traction. During 1H-2017, more than half of the sales volume, shipment volume and profit were contributed by overseas markets and customers. At the same time, differentiated handsets and industrial terminals contributed most of the sales revenue.

In the first half of 2016, the Group mainly sold a higher volume of consumer handsets to an internet brand. In the corresponding period of 2017, the Group shipped mainly differentiated and IOT terminal handsets models as well as continued to reduce its resources allocated to the mid-to-low-end consumer handset business with high risks yet low gross profit margin, thereby resulting in declining shipments and sales amount when compared to the same period last year. Moreover, mass production and shipment of several product models including consumer and industrial terminal handsets launched in the second half of last year continued the shipment in 1H-2017 but the shipments and gross profit margin dropped significantly. Furthermore, many components of the upstream supply chain was in serious shortage and its price escalated starting from the second half of last year, leading to the rising cost of our product shipped and the subsequent decline of gross profit margin in 1H-2017. Besides, despite the expansion of the new product and business lines, the business volume could not overcome the decrease in the existing general consumer handsets business, leading to a substantial decline in sales amount, shipment volume and gross profit of the handsets business in the first half of this year when compared to the same period last year.

With the maturity and confirmation of the 5G and NB-IOT standards, the IOT market is growing. Enormous opportunities have gradually emerged in many market segments such as mobile Point of Sale ("POS"), intelligent logistics, scan terminals, digital walkie talkies, Internet of Vehicles ("IOV") terminals, etc. The Group has initially ventured into these niche markets few years ago and has launched terminals to these niche markets, so it possesses first-mover advantages.

In view of the evolution of the market and our competitive advantages, the Group's management has confirmed that it will further push forward our business on targeting terminal segments. We will continue to expand in the differentiated market and the IOT industrial terminal market as well as to increase our sales and investment in research and development ("R&D") in these market segments. Meanwhile, the Group will also capture the opportunities available in high-end consumer handset ODM, so as to achieve economies of scale, maintain competitiveness of our supply chain and better management in operating risks. The Group still regards overseas ODM opportunities in niche markets as the most important priority, and will further expand its sales force in overseas markets such as North America, Europe and Japan. Within the domestic market, apart from providing terminals to customers, the Group has further expanded its product portfolio and services in a bid to provide better service to our customers and markets, thereby enhancing our influence in specific market segments.

Wireless communication modules business

As the global IOT market thrives, the demand for the Group's wireless communication modules in domestic and overseas markets is increasing. As a result, overall shipments and external sales revenue soared by more than 205.5% and 97.9% respectively when compared with the corresponding period of last year, with sales volume of 2G and 4G products boasting the highest growth. As for sales of 2G modules, benefiting from the rapid development of the bike sharing market in China in 1H-2017, the Group's SIMCOM brand captured the largest portion of the entire bike sharing market through its main support to our three largest customers. Similarly, in the international market, thanks to SIMCOM's successful portfolio in 4G high-end products and its many certifications, the Group has secured many overseas projects. Besides, in view of rapid growth in the overall demand of the domestic 4G market, most of SIMCOM's 4G new products launched in the past two years have already started mass production, given that SIMCOM has proactively developed the product lines relatively early. The selling price of 4G module products on average is eight to ten times higher than that of 2G module products. At present, the largest demand for 4G modules is mainly from the intelligent metre reading, mobile payment, IOV, as well as security and surveillance segments.

Telecommunication operators have made very significant support and investment in the IOT area. In particular, China has actively entered the IOT era, as both network infrastructure and accumulated technology of terminal products have reached a new stage, which has laid a foundation for the development of IOT applications. Compared to China, Europe was mainly affected by the slow economic development. Elsewhere, several major operators in high-end application segments in the US and Japan have proactively promoted 4G services. Several modules developed under the Group's SIMCOM brand have obtained certifications by several major operators in the US and Japan. Meanwhile in India and South East Asia markets, the expansion of high-end 4G markets has not been fast enough, but the demand for the M2M application in the traditional 2G/3G network currently still enjoys higher growth. To take advantage of these opportunities, the Group has entered into strategic partnership with operators across several countries around the world.

During 1H-2017, the substantial increase in the shipments of modules compared to the same period in last year was attributable to the 2G product applications in the bike sharing market in China. However, due to the intense price competition in the market and small operating margins, the entire modules business has recorded a greater drop in gross profit margin.

IOT automatic vending machine business

The Group has adjusted the development roadmap of the cloud-based automatic vending machine business to transform it into an integrated service platform for automatic vending machine operators and beverage manufacturers. Other than configuring its back-end systems to deliver data services to operators, the Group also provides them with upgrading services for their installed outdated machines. In particular, the Group has added various online payment functions through WeChat Pay and Alipay to these machines, which previously only accepted cash, with precision marketing and advertising functionality to promote points redemption, vouchers and fast moving consumer goods. Upgrade of old vending machines will bring more customer resources to the Group's back-end systems, and the beverages wholesale distribution services and financial leasing services provided by the platform will enable the Group to form an integrated service platform to support vending machine operators and beverages manufacturers. However, such changes require continued investment in systems and it remains at the investment stage at present.

During 1H-2017, Shanghai Yunhao Trading Limited, an indirect non-wholly owned subsidiary of the Company, a company selling beverages, added nine sub-depots across China, resulting in an increase in turnover from the wholesale and sales of beverages in this business segment. The adding of a sub-depot business in different regions has also led to a rise in labour and storage costs. In addition, the new sub-depots are located in relatively undeveloped areas where the ability and efficiency of channel management are not up to standard. The higher POS fee and new sub-depot business fee has also caused the overall gross profit margin in this business segment to drop. To address this situation, the Group has coordinated its sub-depot business across the country and decided to reduce the number of unprofitable sub-depots in the second half of this year in order to minimise loss.

Meanwhile, the Group's big data service platform has continued to focus on a series of IOT application integrated solutions such as the intelligent community and intelligent elderly care services, health monitoring, vehicle anti-theft management, management systems for property security and students' safety, automatic vending machine O2O services and the industrial internet during 1H-2017. The platform also provides comprehensive cloud computing and big data services to the Group through designing servers with uniform standards.

Intelligent manufacturing business

The first business unit is engaged in producing automated equipment based on integrated robotic applications, and would be used to replace operations in the production line that requires large amount of operation procedures. In the first half of this year, the Group continued to develop its intelligent manufacturing business and successfully launched new automated equipment, which attracted more customers. As mentioned in the previous annual report of the Company, the competition in the robotics integration industry has become more intense and the development in this industry is faster than expected. Some competitors have even embarked on cut-throat competition offering products at much lower price forcing the Group to forfeit some market opportunities, so its sales have not increased as much as expected.

The second business unit is committed to develop the optical system products, which are focusing on machine vision and artificial intelligence technology, to replace a large number of visual inspection workers on the production line. The Group can master the core technology of testing cell phone covers, its key development direction, and can determine its value during the long period of customer site testing and evaluation. However, due to various reasons, the Group has been unable to secure major orders as scheduled during 1H-2017, but only gaining a few small orders. While it continues to invest in R&D, this business unit is still unprofitable during 1H-2017.

The third business unit aims to tap the industrial internet intellectual system through the development of the backstage software to replace or assist simple and straightforward computer operations for a white-collar worker in manufacturing or supply-chain management, such as a planner and a warehouse manager. The investment in R&D has been huge but actual income has not been generated during 1H-2017 as the business unit is still in the early stage of development and improvement.

During 1H-2017, a number of the Group's key projects had entered into the final R&D and marketing stage. The huge investment in R&D has yet to realise revenue and this has caused the Group to record unsatisfactory results this year. From the macroeconomic perspective, the greater downward pressure faced by the Chinese economy, the more intensive promotion of financial deleveraging by the Chinese government and the tighter capital supply in the market have it more difficult for a majority of manufacturing enterprises to obtain financing. These enterprises have adopted a prudent approach in making substantial investment in equipment and they have not yet started implementing large-scale investment plans. Facing the intense competition in the traditional 3C electronics industry, the Group has insisted on the operating principle of emphasizing quality rather than price in order to deliver high quality and the right quantity at the right time for every project. The sales performance of the Group's intelligent manufacturing business showed a downward trend in the short term as the Group took the initiative to avoid cut-throat price competition while remaining steadfastly determined to give up unprofitable projects. Besides, several companies engaged in providing automated solutions that were acquired by the Group two years ago turned from making a profit to loss has also seriously affected the overall results of this business segment.

Property development

As at 30 June 2017, "The Riverside Country"（晨興•翰林水郡）, in Shenyang City, the PRC, has a total of 1,842 residential units in all its four phases, of which 1,461 units had been sold.

As at 30 June 2017,"Seven River in Sweet"（七里香溪）, in Taizhou City, the PRC, has a total of 757 residential units and 22 commercial units completed in all its two phases, of which 716 units and 22 units had been sold respectively.

The sales of properties recognised for 1H-2017 was amounted to HK$67.4 million (2016: HK$112.5 million) with a gross profit margin of 12.5% (2016: 12.9%).

Prospects

The management is aware of both the challenges and opportunities that the Group is facing in 2017. Looking ahead, the Group will continue to implement the set strategies and insist on "shifting from the manufacturing industry to the information technology services industry, and from a product-oriented manufacturer to a service-oriented service provider".

The management is cautiously optimistic about the results of its handsets, solutions and intelligent terminals business in the second half of the year. This business segment is set to derive most of its profits from differentiated handsets and industrial application terminal products. Products that are expected to generate greater contributions in the second half of this year include light luxury consumer handsets, intelligent logistics scan terminals, industry specific handsets, live handsets, and 4G consumer handsets targeting specific customer groups tailor-made for Japanese operators. The Group will also strengthen of its efforts to expand overseas markets. Japan, the US, Europe, India and Southeast Asia are the Group's major overseas markets, while it is expanding its reach to the Middle East and South America. As for the domestic industrial market, apart from providing terminals, the Group will also further broaden its product and service offerings so as to better serve its customers and markets as well as enhance its presence in specific markets. The Group expects the overall results of its mobile terminal business to be better than that of the last corresponding period.

As for the development strategies of the wireless communication modules business, the Group will strive to preserve its top global position in terms of market share. For the 4G products, the Group will focus on achieving advances in some of the new high-end application areas, develop more new technologies and launch new high-end products to meet the demand in the fast-expanding global IOT market.

Regarding the IOT automatic vending machine business, the Group is determined to offer a variety of quality services to automated vending machine operators and beverage manufacturers capitalising on its integrated service platform. Special focus will be placed on quickly increasing the number of operators and vending machines utilising the platform to facilitate the upgrade of a large installed base of old and outdated vending machines in the market at present. For the beverage wholesale business, the Group will continue to expand the sales business based on its presence in the surrounding areas of Shanghai. It will also coordinate the sub-depot business in different regions, continue to strengthen the development of its value-added intelligent automatic vending machine business and maximise its services coverage. Moreover, the Group will continue to expand the cloud computing and big data service platform to support its proprietary intelligent elderly care service system, health monitoring system and vehicle anti-theft management system, as well as promoting these systems in both domestic and overseas markets.

Intelligent manufacturing business is the latest business pursuit of the Group. Thanks to the Group's dedicated efforts during the past few years, the intelligent manufacturing team has grown into a professional unit integrating R&D, manufacturing, sales and after-sales functions. It has also entered into strategic cooperative partnerships with many key customers engaging in the production of quality handsets, thereby forming a solid foundation for the robust growth of the business in the future. To date, the entire intelligent manufacturing team has delivered an outstanding performance and so as the Group in terms of technical capability, product industry roadmap and expansion of our customer base. The manufacturing business in China is beginning a wave of intelligent robotic transformation and there is huge growth potential in demand at the advent of the intelligent manufacturing and the artificial intelligent era. Nonetheless, the development of the new intelligent manufacturing business takes time and the price competition in China is set to become more severe. Other new intelligent manufacturing companies made their presence felt in the market one by one which has also led to fierce competition in the acquisition of talent. Thus, the Group's intelligent manufacturing team is forced to develop more effective solutions to help its team members address the intense market competition in the future by nurturing the entrepreneurial "can-do" spirit. With high calibre employees as well as a talented and resourceful team to further advance the development of core technologies and expansion of both domestic and overseas markets, the Group is confident that its intelligent manufacturing business will realise satisfactory growth in the coming few years.

FINANCIAL REVIEW

For 1H-2017, the revenue of the Group was HK$1,429.0 million (2016: HK$1,325.7 million), in which the revenue from sale of handsets, solutions and intelligent terminals, wireless communication modules, IOT business and intelligent manufacturing business (together, "core business") increased by 12.2% to HK$1,361.6 million (2016: HK$1,213.2 million) as compared with that of the six months ended 30 June 2016 ("1H-2016"). The revenue from the sale of residential units in Shenyang and Taizhou, PRC was HK$67.4 million in 1H-2017 (2016: HK$112.5 million).

The gross profit for 1H-2017 for core business of the Group decreased period-to-period by 16.5% to HK$156.0 million (2016: HK$186.8 million). The gross profit margin for core business reduced to 11.5% (2016: 15.4%). The overall gross profit margin of the Group for 1H-2017 was 11.5% (2016: 15.2%).

As a result of the increase in revenue in 1H-2017, the Group achieved a profit attributable to owners of the Company of HK$35.7 million (2016: HK$31.0 million). The basic earnings per share for 1H-2017 was HK1.4 cents (2016: HK1.2 cents).

Segment results of core business

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Revenue	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	HK$'M	***HK$'M***	***%***	*HK$'M*	*HK$'M*	*%*
Handsets, solutions and intelligent terminals	**516**	**57**	**11.1**	687	87	12.7
Wireless communication modules	**655**	**66**	**10.0**	331	50	15.0
IOT business	**146**	**18**	**12.3**	122	21	17.4
Intelligent manufacturing business	**45**	**15**	**34.9**	73	29	39.0
Total	**1,362**	**156**	**11.5**	1,213	187	15.4

Handsets, solutions and intelligent terminals

The revenue of handsets, solutions and intelligent terminals for 1H-2017 decreased 24.9% to HK$516.2 million (2016: HK$687.0 million) as compared to that of 1H-2016. Starting from second half of last year, a lot of upstream supply chain components are out of stock and their prices are raised, resulting in decrease in gross profit and gross profit margin during 1H-2017. The gross profit margin for this segment decreased to 11.1% in 1H-2017 (2016: 12.7%).The revenue of ODM business contributed to approximately 75% of the revenue of this segment in 1H-2017 (2016: 79%).

Wireless communication modules

Due to the increasing demand for the Group's wireless communication modules from domestic bike sharing industry, overall shipment in 1H-2017 have risen sharply by 205.5% as compared to the same period last year. Hence, the revenue of this segment increased period-to-period by 97.9%. However, due to the declining ASP of 2G and other low-end modules, the gross profit margin decreased to 10.0% (2016: 15.0%).

Internet of things business

During 1H-2017, the Group added 9 sub-depots throughout the country, as a result, the revenue of IOT business recorded HK$145.9 million (2016: HK$121.6 million). However, the newly-added sub-depots are in immature areas, channel control and efficiency not yet up to standard which caused to the increase in business operation costs and the decrease of gross profit margin to 12.3% (2016: 17.4%).

Intelligent manufacturing business

During 1H-2017, due to the fierce market competition, in order to avoid the vicious competition phenomenon, the Group gave up those projects that did not make any profit which affected the sales and gross profit margin. The revenue of this segment decreased to HK$44.4 million (2016: HK$73.5 million) and the gross profit margin decreased to 34.9% in 1H-2017 (2016: 39.0%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2017, the Group had bank balances and cash of HK$265.2 million (31 December 2016: HK$249.1 million), of which 82.2% was held in Renminbi, 17.6% was held in US dollars and the remaining balance was held in Hong Kong dollars. As at 30 June 2017, the Group also had pledged bank deposits of HK$40.5 million (31 December 2016: HK$76.6 million) in Renminbi for the purpose of the Group's Renminbi borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including property, plant and equipment, investment properties, land use rights and notes receivables) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK$199.5 million as at 30 June 2017 (31 December 2016: HK$300.0 million), all of which HK$179.9 million was denominated in Renminbi and HK$19.6 million was denominated in US dollars. All of the bank borrowings were carried at floating interest rates and repayable within one year.

Operating Efficiency

The turnover period of inventory, trade and notes receivables, trade and notes payables of the Group for the core business are presented below:

	30 June 2017 *Days*	31 December 2016 *Days*
Inventory turnover period	**119**	119
Trade and notes receivables turnover period	**39**	40
Trade and notes payables turnover period	**60**	88

In the second quarter of 2017, the purchase volume of the Group was large as to fulfill the sales orders of third quarter of 2017. The inventory turnover period of 1H-2017 thus maintained same level as compared to that of year 2016.

During 1H-2017, as the trade receivables for core business have same credit period to the year 2016, the overall trade and notes receivables turnover period maintained in similar level as compared to that of year 2016.

The trade and notes payables turnover period decreased for 1H-2017 as compared to that of year 2016 due to the average balance of trade and notes payables decreased for 1H-2017.

As at 30 June 2017, the current ratio, calculated as current assets over current liabilities, was 1.8 times (31 December 2016: 1.9 times).

The Group reckons that inventory turnover period, trade and notes receivables turnover period, and trade and notes payables turnover period help the Group to understand its ability to convert inventory into cash and sales cash conversion cycle. Through reviewing the turnover periods, the Group can improve its operational efficiency. The current ratio can help the Group to understand its ability to pay short-term and long-term obligations.

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income. As at 30 June 2017, the Group has entrusted a total amount of HK$69.4 million under certain asset management agreements for an investment period of one year. During 1H-2017, the Group did not have any other security or capital investments or derivative investments.

Certain sales and purchases of inventories of the Group are denominated in US dollars. Furthermore, certain trade receivables, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. During 2016, the Group entered into a foreign exchange forward contract of US$20.0 million to reduce the foreign exchange exposures in US dollars.

The net fair value of foreign exchange forward contract entered into by the Group for managing the currency risk of US dollars as at 30 June 2017 was a liability of HK$7.6 million (31 December 2016: Nil). Save as disclosed, the Group did not use any financial instrument for hedging purpose.

Capital structure

As at 30 June 2017, the Company had 2,557,896,300 ordinary shares of HK$0.10 each in issue.

No shares of the Company has been issued or repurchased during 1H-2017.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2017 and 1H-2016:

	1H-2017	1H-2016
	HK$'M	*HK$'M*
Net cash from operating activities	**151.8**	170.3
Capital expenditure	**(10.8)**	(41.8)
Development costs	**(110.2)**	(97.3)
Net decrease in bank borrowings	**(106.8)**	(127.0)
Net cash inflow from disposal of an associate	**10.0**	–
Net decrease in entrusted loan receivables	**45.6**	3.5
Interest paid	**(3.0)**	(4.6)
Others	**3.3**	(8.1)
Net decrease in cash and cash equivalents (including pledged bank deposits)	**(20.1)**	(105.0)

GEARING RATIO

As at 30 June 2017, the total assets of the Group was HK$3,615.2 million (31 December 2016: HK$3,479.8 million) and the bank borrowings was HK$199.5 million (31 December 2016: HK$300.0 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 5.5% (31 December 2016: 8.6%).

The Group reviews its gearing ratio on a regular basis. According to the capital plan for the future, the Group tries to maximise revenue for Shareholders with capital risk awareness in mind. Capital structure is being constantly adjusted according to changes in the operational environment.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2017, the Group had approximately 2,480 (31 December 2016: 2,390) employees.The Group operates a mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC. The Group has a comprehensive training system in place that establishes a network-based career path for employees, including position and ability management, skills enhancement programme, various training opportunities, online learning programme for staff, internal promotion system, key employees development programme, succession plans for key positions and leadership development programme. The Group also offers discretionary bonuses and may grant share options under the share option scheme of the Company to its employees by reference to individual performance and the performance of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

FUTURE PLANS FOR MATERIAL INVESTMENT

As at 30 June 2017, the Group did not have any other plans for material investment or capital assets save as disclosed in this announcement.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 20 January 2017, SIM Technology Group (BVI) Limited, a wholly-owned subsidiary of the Company and u-blox AG, a wholly-owned subsidiary of u-blox Holding AG (a company listed on the SIX Swiss Exchange), entered into the technology assignment ("Technology Assignment Contract") and the asset purchase agreement ("Asset Purchase Agreement"), pursuant to which the Group has agreed to sell the Group's 2G, 3G, 4G wireless communication module and GNSS module business related technology and assets at the aggregate consideration of US$52.5 million ("Disposal").

On 21 May 2017, the Group and u-blox AG have mutually agreed not to proceed with the Disposal. Both parties have therefore decided to amicably terminate the Technology Assignment Contract and Asset Purchase Agreement and all ancillary agreements.

Details of the Disposal are disclosed in the announcements of the Company dated 22 January 2017 and 22 May 2017 and the circular of the Company dated 28 February 2017.

Save as disclosed above, during 1H-2017, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

EVENTS AFTER THE REPORTING PERIOD

On 7 July 2017, the Group entered into a letter of intent with 上海移为通信技术股份有限公司 (Queclink Wireless Solutions Co., Ltd.) and Richjoy Talent Limited for a possible disposal of two wholly-owned subsidiaries of the Company which own or will own all the technology, patents and software copyrights relevant to 2G, 3G and 4G wireless communication module, GNSS module and the wireless communication modules business of the Group ("Possible Disposal"). As at the date of this announcement, the Group has not entered into any legally binding definitive agreement for the Possible Disposal. Further details of the Possible Disposal are set out in the announcement of the Company dated 7 July 2017.

Save as disclosed above, there were no significant events of the Group occurred since the end of 1H-2017.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for 1H-2017.

Code provision A.2.7 of the Corporate Governance Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. As Ms Yeung Man Ying, the chairman of the Board, is also an executive Director, the Company has deviated from this code provision as it is not applicable. Currently, the chairman of the Board may communicate with the non-executive Directors on a one-to-one or group basis periodically to understand their concerns, to discuss pertinent issues and to ensure that there is access to adequate and complete information.

In respect of code provisions A.5.1 to A.5.4 of the Corporate Governance Code, the Company does not have a nomination committee. At present, the Company does not consider it necessary to have a nomination committee as the full Board is responsible for reviewing the structure, size and composition of the Board and the appointment of new Directors from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board as a whole is also responsible for assessing the independence of the independent non-executive Directors and reviewing the succession plan for the Directors, in particular the chairman of the Board.

According to the code provision E.1.2 of the Corporate Governance Code, the chairman of the Board shall attend the annual general meeting of the Company and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on 8 June 2017 ("2017 AGM"), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to an unexpected business engagement. Mr Chan Tat Wing, Richard, an executive Director and the chief finance officer of the Group, chaired the 2017 AGM pursuant to the bye-laws of the Company and was available to answer questions. Mr Liu Hing Hung, an independent non-executive Director and the chairman of the remuneration committee of the Board and the audit committee of the Board ("Audit Committee"), was also available at the 2017 AGM to answer questions from Shareholders.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that each of them has fully complied with the required standard as set out in the Model Code during 1H-2017.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated interim financial information of the Group for 1H-2017. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2017 have been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu. The Audit Committee comprises all three independent non-executive Directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement has been published on the respective websites of the Company (www.sim.com) and the Stock Exchange (www.hkexnews.hk). The 2017 interim report of the Company will be dispatched to the Shareholders and available on the above websites in due course.

APPRECIATION

The Board would like to thank our Shareholders, customers, suppliers, bankers and professional advisers for their support of the Group and to extend our appreciation to all our staff for their dedication and contributions throughout the reporting period.

DIRECTORS

As at the date of this announcement, the executive directors of the Company are Ms Yeung Man Ying, Mr Wong Cho Tung, Ms Tang Rongrong, Mr Chan Tat Wing, Richard, Mr Liu Hong and Mr Liu Jun, and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Wang Tianmiao and Mr Wu Zhe.

By Order of the Board
SIM Technology Group Limited
Wong Cho Tung
Executive Director

This announcement contains certain forward-looking statements. The words "intend", "expect", "anticipate", "is confident", and similar expressions are intended to identify forward-looking statements. These statements are not historical facts or guarantees of future performance. Actual results could differ materially from those expressed, implied or forecasted in such forward-looking statements. Such forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of the Company about the business, the industry and the market in which the Group operates, and are subject to risks, uncertainties and other factors that could significantly affect expected results.

24 August 2017

* *For identification purposes only*