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 2011

The board of directors (the "Board") of SIM Technology Group Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **1,265,378** | 2,015,109 |
| Cost of sales | | **(1,142,168)** | (1,771,903) |
| Gross profit | | **123,210** | 243,206 |
| Other income | *5* | **24,571** | 53,075 |
| Other gains and losses | | **25,905** | 3,975 |
| Research and development expenses | | **(76,326)** | (52,087) |
| Selling and distribution costs | | **(47,821)** | (54,104) |
| Administrative expenses | | **(64,038)** | (58,676) |
| Finance costs | | **(3,497)** | (5,487) |
| (Loss) Profit before taxation | | **(17,996)** | 129,902 |
| Tax charge | *6* | **(2,810)** | (23,099) |
| (Loss) Profit for the period | *7* | **(20,806)** | 106,803 |
| (Loss) Profit for the period attributable to: | | | |
| Owners of the Company | | **(18,748)** | 108,216 |
| Non-controlling interests | | **(2,058)** | (1,413) |
| | | **(20,806)** | 106,803 |
| (Loss) Earnings per share (HK cents) | *9* | | |
| Basic | | **(1.2)** | 7.0 |
| Diluted | | **(1.2)** | 6.7 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| (Loss) Profit for the period | **(20,806)** | 106,803 |
| Other comprehensive income for the period: | | |
| Exchange difference arising on translation to presentation currency | **35,571** | 26 |
| Total comprehensive income for the period | **14,765** | 106,829 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **16,251** | 108,242 |
| Non-controlling interest | **(1,486)** | (1,413) |
| | **14,765** | 106,829 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 30 June 2011 HK$'000 (unaudited) | As at 31 December 2010 HK$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **257,076** | 243,832 |
| Property, plant and equipment | | **423,485** | 343,389 |
| Land use rights | | **96,655** | 96,108 |
| Goodwill | | **28,321** | 28,321 |
| Intangible assets | | **189,076** | 177,453 |
| Deferred tax assets | | **9,620** | 9,592 |
| Available-for-sale investment | | **16,200** | 15,876 |
| Deposits paid for property, plant and equipment | | **12,793** | 20,226 |
| | | **1,033,226** | 934,797 |
| **Current assets** | | | |
| Inventories | | **488,256** | 440,013 |
| Properties under development for sales | | **135,731** | 110,441 |
| Trade receivables | *10* | **121,616** | 110,420 |
| Notes and bills receivables | *10* | **126,199** | 124,304 |
| Other receivables, deposits and prepayments | | **289,043** | 279,997 |
| Pledged bank deposits | | **319,719** | 616,828 |
| Bank balances and cash | | **543,966** | 534,522 |
| | | **2,024,530** | 2,216,525 |
| **Current liabilities** | | | |
| Trade and notes payables | *11* | **402,763** | 420,357 |
| Other payables, deposits received and accruals | | **232,756** | 198,904 |
| Bank borrowings | | **355,981** | 640,335 |
| Tax payable | | **15,579** | 29,488 |
| | | **1,007,079** | 1,289,084 |
| **Net current assets** | | **1,017,451** | 927,441 |
| **Total assets less current liabilities** | | **2,050,677** | 1,862,238 |
| **Capital and reserves** | | | |
| Share capital | | **171,095** | 156,962 |
| Reserves | | **1,805,113** | 1,634,103 |
| **Equity attributable to owners of the Company** | | **1,976,208** | 1,791,065 |
| **Non-controlling interests** | | **26,539** | 28,025 |
| **Total equity** | | **2,002,747** | 1,819,090 |
| **Non-current liability** | | | |
| Deferred tax liabilities | | **47,930** | 43,148 |
| | | **2,050,677** | 1,862,238 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| **NET CASH FROM OPERATING ACTIVITIES** | **628** | 19,511 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(92,605)** | (73,456) |
| Proceeds on disposal of property, plant and equipment | **93** | – |
| Development costs paid | **(83,742)** | (84,248) |
| Deposits paid for purchase of land use rights | **–** | (5,035) |
| Decrease (increase) in pledged bank deposits | **304,452** | (162,545) |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | **128,198** | (325,284) |
| **FINANCING ACTIVITIES** | | |
| Issue of shares | **237,477** | 34,111 |
| Transaction costs attributable to issue of new shares | **(7,708)** | – |
| New bank borrowings raised | **127,175** | 327,957 |
| Repayments of bank borrowings | **(417,203)** | (78,000) |
| Dividends paid | **(51,733)** | (34,415) |
| Interest paid | **(3,497)** | (5,487) |
| Repurchase of shares | **(13,195)** | – |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | **(128,684)** | 244,166 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **142** | (61,607) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | **534,522** | 532,276 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **9,302** | 26 |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH** | **543,966** | 470,695 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 manufacturing, design and development and sales of display modules, handsets (full handsets for ODM customers) and solutions (SKD/CKD and royalties), and wireless communication modules.

The functional currency of the Company is Renminbi. The condensed consolidated financial statements are presented in Hong Kong dollar, as the directors of the Company ("Directors") consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the shareholders of the Company.

The condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

## 2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments or interpretations ("new and revised IFRSs") issued by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for the Group's financial year beginning on 1 January 2011.

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs 2010 |
| IAS 24 (Revised) | Related party disclosures |
| IAS 32 (Amendment) | Classification of rights issues |
| IFRIC 14 (Amendment) | Prepayments of a minimum funding requirement |
| IFRIC 19 | Extinguishing financial liabilities with equity instruments |

The application of the new and revised IFRSs had no effect on the condensed consolidated financial statement of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards and amendments that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 7 | Disclosures – Transfers of financial assets[1] |
| IFRS 9 | Financial instruments[2] |
| IFRS 10 | Consolidated financial statements[2] |
| IFRS 11 | Joint arrangements[2] |
| IFRS 12 | Disclosures of interests in other entities[2] |
| IFRS 13 | Fair value measurement[2] |
| IAS 1 (Amendments) | Presentation of items of other comprehensive income[4] |
| IAS 12 (Amendments) | Deferred tax: Recovery of underlying assets[3] |
| IAS 19 (Revised) | Employee benefits[2] |
| IAS 27 (Revised) | Separate financial statements[2] |
| IAS 28 (Revised) | Investments in associates and joint ventures[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2012.
4 Effective for annual periods beginning on or after 1 July 2012.

IFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 "Financial instruments" (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of IFRS 9 will mainly affect the classification and measurement of the Group's available-for-sale investments.

The amendments to IAS 12 titled "Deferred tax: Recovery of underlying assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with IAS 40 "Investment property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

The opinion of the directors of the Company, it is not practicable to provide reasonable estimate of the effect of application of IFRS 9 and IAS 12 as stated above until detailed review has been completed.

The directors of the Company anticipate that the application of other new and revised standards and amendments will have no material impact on the results and the financial position of the Group.

## 3. Revenue

Revenue represents the amounts received and receivable for goods sold net of discounts and sales related taxes.

## 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, represented by the Board of Directors, for the purpose of allocate resources to segments and assessing their performance.

The Group currently organised into three revenue streams – sale of handsets and solutions, sale of display modules and sale of wireless communication modules.

Segment information about these businesses is presented below:

**Six months ended 30 June 2011**
**(Unaudited)**

| | Sale of handsets and solutions | Sale of display modules | Sale of wireless communication modules | Segment total | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | | | | | | |
| External sales | **934,024** | **58,715** | **272,639** | **1,265,378** | **–** | **1,265,378** |
| Inter-segment sales | **–** | **17,643** | **–** | **17,643** | **(17,643)** | **–** |
| Total | **934,024** | **76,358** | **272,639** | **1,283,021** | **(17,643)** | **1,265,378** |
| Segment (loss) profit | **(18,836)** | **(15,002)** | **7,299** | **(26,539)** | **–** | **(26,539)** |
| Other income | | | | | | **15,560** |
| Corporate expenses | | | | | | **(11,719)** |
| Gain from changes in fair values of investment properties | | | | | | **8,199** |
| Finance costs | | | | | | **(3,497)** |
| Loss before taxation | | | | | | **(17,996)** |

Six months ended 30 June 2010
(Unaudited)

| | Sale of handsets and solutions<br>*HK$'000* | Sale of display modules<br>*HK$'000* | Sale of wireless communication modules<br>*HK$'000* | Segment total<br>*HK$'000* | Elimination<br>*HK$'000* | Consolidated<br>*HK$'000* |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| External sales | 1,583,337 | 66,366 | 365,406 | 2,015,109 | – | 2,015,109 |
| Inter-segment sales | – | 24,012 | – | 24,012 | (24,012) | – |
| Total | 1,583,337 | 90,378 | 365,406 | 2,039,121 | (24,012) | 2,015,109 |
| Segment profit (loss) | 112,698 | (9,084) | 48,360 | 151,974 | – | 151,974 |
| Other income | | | | | | 8,312 |
| Corporate expenses | | | | | | (24,897) |
| Finance costs | | | | | | (5,487) |
| Profit before taxation | | | | | | 129,902 |

Inter-segment sales are charged at mutually agreed terms.

Segment result represents the financial result by each segment without allocation of rental income, interest income, other income, corporate expenses, gain from changes in fair value of investment properties and finance costs. This is the measure reported to the Group's management for the purposed of resource allocation and assessment of segment performance.

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

| | **As at 30 June 2011**<br>***HK$'000***<br>***(unaudited)*** | As at 31 December 2010<br>*HK$'000*<br>*(audited)* |
|---|---|---|
| Sale of handsets and solutions | **989,169** | 1,068,903 |
| Sale of display modules | **309,463** | 254,929 |
| Sale of wireless communication modules | **353,998** | 161,450 |
| Total segment assets | **1,652,630** | 1,485,282 |

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than investment properties, certain property, plant and equipment, pledged bank deposits, bank balances and cash, deposits paid for property, plant and equipment, available-for-sale investments, deferred tax assets, properties under development for sales and certain other receivables, deposits and prepayment. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments.

## 5. Other income

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| Refund of VAT *(Note)* | **5,728** | 6,552 |
| Government grants | **3,283** | 38,211 |
| Interest income earned on bank balances | **7,610** | 3,257 |
| Rental income (Less: outgoings of HK$331,000 (2010: HK$201,000)) | **7,848** | 4,332 |
| Others | **102** | 723 |
| | **24,571** | 53,075 |

*Note:*

Shanghai Simcom Limited, Shanghai Speedcomm Technology Limited and Shanghai Simcom Wireless Solutions Limited, wholly-owned subsidiaries of the Company, are engaged in the business of distribution of self-developed and produced software. Under the current People's Republic of China ("PRC") tax regulation, it is entitled to a refund of Value Added Tax ("VAT") paid for sales of self-developed software in the PRC.

## 6. Tax charge

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| Tax charge comprises: | | |
| PRC Enterprise Income Tax | | |
| – current period | **2,687** | 24,486 |
| – overprovision in prior periods | **(3,570)** | – |
| Deferred tax charge (credit) | **3,693** | (1,387) |
| | **2,810** | 23,099 |

No provision for Hong Kong Profits Tax has been made for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong.

PRC Enterprise Income Tax is calculated at the rates prevailing in the relevant districts of the PRC taking relevant tax incentives into account. The estimated average annual tax rate used for PRC Enterprise Income Tax is 15% for six months ended 30 June 2011 (six months ended 30 June 2010: 18%).

## 7. (Loss) Profit for the period

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| (Loss) Profit for the period is arrived at after charging (crediting): | | |
| Amortisation of intangible assets (included in cost of sales) | **75,677** | 77,423 |
| Amortisation of land use rights | **1,073** | 850 |
| Depreciation of property, plant and equipment | **28,765** | 21,958 |
| Less: Amount capitalised in development costs classified as intangible assets | **(1,470)** | (1,566) |
| | **27,295** | 20,392 |
| Staff costs including directors' emoluments | **169,071** | 155,024 |
| Share-based payments | **4,051** | 7,633 |
| Less: Amount capitalised in development costs classified as intangible assets | **(67,799)** | (63,417) |
| | **105,323** | 99,240 |
| Write-down of inventories (included in cost of sales) | **3,511** | 3,029 |
| Allowance for bad and doubtful debts | **–** | 4,533 |
| Loss on disposal of property, plant and equipment | **24** | 27 |
| Net foreign exchange gain (included in other gains and losses) | **(8,023)** | (3,975) |
| Gain from changes in fair value of investment properties (included in other gains and losses) | **(8,199)** | – |
| Reversal of allowance for bad and doubtful debts (included in other gains and losses) | **(9,683)** | – |

## 8. Dividends

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| Dividends recognised as distribution – final dividend for year 2010 of HK3.0 cents (2010: HK2.2 cents for year 2009) per share | **51,733** | 34,415 |

Subsequent to the reporting period date, the directors determined that an interim dividend of HK1.0 cent (1 January 2010 to 30 June 2010: HK2.5 cents) per share be paid to the owners of the Company whose names appear on the Register of Members on 23 September 2011.

## 9. (Loss) Earnings per share

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **(Loss) Earnings** | ***(unaudited)*** | *(unaudited)* |
| (Loss) Earnings for the purposes of basic and diluted (loss) earnings per share for the period attributable to owners of the Company | **(18,748)** | 108,216 |
| **Number of shares** | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **1,577,784** | 1,544,102 |
| Effect of dilutive potential ordinary shares – share options | **–** | 68,066 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | **1,577,784** | 1,612,168 |

The computation of diluted loss per share for the period ended 30 June 2011 does not assume the exercise of the Company's share options as it would reduce loss per share.

For the period ended 30 June 2010, weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has accounted for the effect of the share options with dilutive effect.

## 10. Trade receivables, notes and bills receivables

The normal credit period taken on sales of goods is 0 to 90 days. The following is an aged analysis of trade receivables, notes and bills receivables presented based on the respective invoice date at the end of the reporting period:

| | **As at 30 June 2011** *HK$'000* *(unaudited)* | As at 31 December 2010 *HK$'000* *(audited)* |
|---|---|---|
| 0 – 30 days | **92,281** | 103,747 |
| 31 – 60 days | **23,986** | 1,689 |
| 61 – 90 days | **1,944** | 655 |
| 91 – 180 days | **3,305** | 2,126 |
| Over 180 days | **12,457** | 23,882 |
| | **133,973** | 132,099 |
| Less: Accumulated allowances | **(12,357)** | (21,679) |
| Trade receivables | **121,616** | 110,420 |
| 0 – 30 days | **122,828** | 124,304 |
| 31 – 60 days | **3,371** | – |
| Notes and bills receivables *(Note)* | **126,199** | 124,304 |

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

## 11. Trade and notes payables

The normal credit period taken for trade purchases is 30 to 60 days. The following is an aged analysis of trade and notes payables presented based on the respective invoice date at the end of the reporting period:

| | **As at 30 June 2011** *HK$'000* *(unaudited)* | As at 31 December 2010 *HK$'000* *(audited)* |
|---|---|---|
| 0 – 30 days | **345,807** | 357,207 |
| 31 – 60 days | **33,051** | 42,571 |
| 61 – 90 days | **12,706** | 4,556 |
| Over 90 days | **11,199** | 16,023 |
| | **402,763** | 420,357 |

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend for the six months ended 30 June 2011 of HK1.0 cent per share (2010: HK2.5 cents per share) to shareholders of the Company whose names appear on the register of members of the Company on 23 September 2011. The interim dividend will be paid on or about 7 October 2011.

## CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 21 September 2011 to 23 September 2011, both days inclusive, during such period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on 20 September 2011.

## MARKET AND BUSINESS REVIEW

### Business Review

It is with deep regret that we report the first unprofitable financial result for the Group. Despite a healthy first quarter, business slowed down significantly in the last few months resulting in missing of sales target and lower gross profit margin. The Group encountered two unfavourable events during our "High Value Added" ODM transition in the first half of 2011. First, our traditional open market handset business shrank due to the significant reduction in customer demand. Not only do our open market customers face slower market demand, some were caught up in intellectual property dispute with other parties. The result was a sudden and drastic drop in sales order. Compounding with competitors' panic selling, the open market handset segment was unprofitable for the Group. The open market segment sales in the recent months reduced about 50% from previously. Second, our anticipated high end ODM business in the first half did not materialize. Part of it was due to the change in TD-SCMDA tender. Part of it was due to the challenges we have to overcome internally during the transition. We are continuing the learning journey to revamp our organization structure, business process, performance review, and incentive program to adapt to the new engagement rules with our Tier One customers. And equally important is the effort it took to change the thousand's of employees' mind set turned out to be quite hard. Therefore, the transition proved to be more difficult and more time consuming than we expected. Many of the high end ODM projects are anticipated to begin shipment in the second half of 2011. As a result, the high end ODM projects were not able to offset the drop in the open market segment performance in the first half of 2011.

For wireless modules segment, shipment volume of 2.5G modules increased as compared to the first half of 2010. However, shipment of TD-SCDMA modules dropped significantly due to demand reduction and fierce price competition. In addition, the volume gain in 2.5G modules was not able to offset the price delta due to the higher average selling price of TD-SCDMA modules. Compounding with the fact that some of the module growth was coming from low cost regions like PRC where average sales prices are on the low side, the gross profit margin were flat. As a result, the first half wireless module segment reports a small drop of 6% in volume and a drop of 25% in revenue versus same period in 2010.

Our Group is firmly committed to the strategy of transitioning to become "High Value Added" ODM. The market has shown us that only a differentiable business model can sustain long term profitable growth. Our ability to meet our Tier One ODM customers' uncompromising demand in excellence service and quality set us apart from our competitors. We gained a significant head start by beginning the transition earlier than others. Therefore, we are optimistic that the unprofitable result is short-lived.

**Prospect**

The management is confident about the second half result, particularly in the fourth quarter. The Group is making steady progress towards the transition. We have already passed through the audit by the Japanese operator in anticipation to the first model launched in the Japanese market. The two Japanese and two domestic ODM customers' upcoming demand alone can support our Group's second half handset business target. We do not anticipate the open market segment to grow. The Group is making the right tradeoff to move away from an unprofitable and non-differentiable business. Just a couple years ago, it is unthinkable that our quality would satisfy the Japanese domestic market, our customer base would consist of the world's most demanding branded handset suppliers, and our products would address the top one-third segment of the handset market. Now, we are investing in the most advance technology including 4G and developing high end 3G smart phones and tablets. The Group targeted that the shipment and sales for 3G smart phones in 2H-2011 will exceed any of our previously reported results, representing about 80% of 3G handset sales. Our dedication, determination, and plenty of hard work turn our dream into reality. The management is confident that our successful execution will lead the Group to another phase of fast profitable growth.

## FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group's revenue decreased by 37.21% to HK$1,265.4 million (2010: HK$2,015.1 million) as compared with that of the first half of 2010 ("1H-2010"). The sales decrease was attributable to the reduction in demand of mid to low end solutions in the open market segment. The feature phone projects launched last year by both Japan and Korea customers have ended earlier than expected while the new smart phone projects by the same customers are targeted to ship in 2H-2011. As a result, the sales of handsets and solutions during this transition period decreased as compared with those in 1H-2010. Wireless communication modules also decreased as compared to the same period last year mainly due to the weak demand of the TD-SCDMA modules.

The gross profit of the Group decreased dramatically by 49.34% to HK$123.2 million (2010: HK$243.2 million) for 1H-2011 as compared to 1H-2010 while the gross profit margin decreased to 9.74% (2010: 12.07%). The Group incurred a loss for the reporting period of HK$18.7 million (2010: profit of HK$108.2 million). The basic loss per share was HK1.2 cents (2010: earnings per share HK7 cents).

**Segment results**

| | (unaudited) Six months ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | | | 2010 | | | |
| | **Revenue** *HK$'M* | **Unit shipped** *'000* | **Gross profit/ (loss)** *HK$'M* | **Gross profit/ (loss) margin** *%* | Revenue *HK$'M* | Unit shipped *'000* | Gross profit *HK$'M* | Gross profit margin *%* |
| Handsets and solutions | **934** | **5,406** | **76** | **8.16%** | 1,583 | 8,031 | 169 | 10.73% |
| Display modules | **58** | **1,047** | **(4)** | **(6.25%)** | 67 | 1,761 | 6 | 8.83% |
| Wireless communication modules | **273** | **2,968** | **51** | **18.59%** | 365 | 3,145 | 68 | 18.48% |
| Total | **1,265** | **9,421** | **123** | **9.74%** | 2,015 | 12,937 | 243 | 12.07% |

**Handsets and solutions**

For 1H-2011, the revenue of 3G/3.5G handset solutions increased by 74% due to increase sales of WCDMA solutions for the China Unicom network and CDMA solutions for the China Telecom network. Whereas the revenue of 2G/2.5G handset solutions dropped by 53% as compared to those of 1H-2010. The sale of handsets and solutions decreased by 41% due to the sudden and drastic drop in demand from open market customers as compared to that of 1H-2010. The gross profit margin decreased to 8.16% (2010: 10.73%). The revenue of handsets and solutions was about 27% and 47% (2010: 43% and 35%) respectively of the total revenue of the Group. The Group has launched 118 handset models and 41 handset platforms during the reporting period (2010: 100 handset models, 46 handset platforms).

**Display modules**

The revenue for display modules decreased by 11.53% as compared to that in 1H-2010 and sustained a loss during the reporting period. The Group was exiting the low end display market segment and upgrading the factory equipment to produce high end LCD modules to support our ODM handsets. In addition, the Group increased investment in R&D and manufacturing capability for capacity touch panel (CTP) in 1H-2011. As a result, there was a loss incurred in the sale of display modules in 1H-2011.

**Wireless communication modules**

The revenue of wireless communication modules decreased substantially by 25.39% because of the decrease in the sale of TD-SCDMA modules. The decrease was partially offset by the increase in 2.5G modules. However, since the TD-SCDMA modules had higher average selling price than our 2.5G modules, the resulting revenue decreased for the overall segment. The gross margin stayed flat at 18.59% (2010: 18.48%) in 1H-2011 due to the improved gross margin in SIM900 family offset by the decrease in gross margin for low cost module in some of the emerging markets.

## LIQUITY, FIANCIAL RESOURCES AND CAPITAL STRUCTURE

The financial position of the Group remains strong and healthy. As at 30 June 2011, the Group had bank balances (including pledged bank deposits) of HK$863.7 million (31 December 2010: HK$1,151.4 million), of which 90.92% was held in Renminbi, 9.07% was held in United States ("US") dollars and the remaining balance was held in Hong Kong dollars. The bank balances are expected to finance the Group's working capital and capital expenditure plans in developing new technologies for handsets and solutions.

The Company listed 137,500,000 units of Taiwan depository receipts ("TDR"), each unit of TDR represents two shares of the Company, on the Taiwan Stock Exchange Corporation on 25 April 2011. The 137,500,000 units of TDR represent 275,000,000 shares of the Company, of which the Company issued 137,500,000 new shares at approximately HK$1.60 per share and Info Dynasty Group Limited, a substantial shareholder of the Company transferred 137,500,000 shares as underlying securities of the TDR. The Company raised net proceeds after deducting the relevant expenses of approximately HK$214 million. During 1H-2011, the Group utilised the said proceeds of HK$79 million for the construction of Shenyang factory and purchase of machinery equipment.

As at 30 June 2011, the Group had total bank borrowings amounting to HK$356 million (31 December 2010: HK$640.3 million) comprising invoice financing bank loans and denominated in US dollars, were matured within one year. The annual interest rate on the above bank borrowings was ranging from 1.3% to 3.3%.

For the period under review, the Group's turnover period for inventory, trade receivables together with notes and bills receivable, and trade payables were increased to 74 days, 35 days and 70 days respectively (31 December 2010: 44 days, 20 days and 52 days respectively). The turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

As at 30 June 2011, the current ratio, calculated as current assets over current liabilities, was 2 times (31 December 2010: 1.7 times).

After reviewing the current financial position based on the Group's finance policy, the management of the Group considered that it was not necessary to use any financial instrument for hedging purpose nor adopt any particular hedging policy.

As at 30 June 2011, the Company had an issued capital comprising 1,727,541,000 ordinary shares of HK$0.10 each. During the period under review, the Company has repurchased an aggregate of 16,590,000 shares, all of which had not been cancelled as at 30 June 2011.

## EMPLOYEES

As at 30 June 2011, the Group had 3,489 (31 December 2010: 3,455) 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 also offers discretionary bonuses to its employees by reference to individual performance and the performance of the Group.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the reporting period, the Company has purchased an aggregate of 16,590,000 shares on the Stock Exchange for an aggregate consideration of about HK$13,126,000. Save as aforesaid, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the reporting period.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Save as mentioned below, the Company has complied with the code provisions laid down in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules ("Corporate Governance Code") during the reporting period.

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 13 May 2011 ("2011 AGM") , Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to unexpected business engagement. Mr Chan Tat Wing, Richard, an executive Director and the chief finance officer of the Group, chaired the 2011 AGM on behalf of the chairman of the Board pursuant to the bye-laws of the Company and was available to answer questions. Mr Wong Cho Tung, an executive Director and a member of the Remuneration Committee together with Mr Liu Hing Hung, an independent non-executive Director and the chairman of the Audit Committee, were also available at the 2011 AGM to answer questions from shareholders of the Company.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company with all the directors, that they have fully complied with the required standard as set out in the Model Code for the reporting period.

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") has reviewed with management the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2011. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, and an unqualified review report was issued. The Audit Committee comprises the three independent non-executive directors of the Company.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.sim.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The 2011 interim report 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.

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

As at the date of this announcement, the executive directors of the Company are Ms Yeung Man Ying, Mr Wong Cho Tung, Mr Wong Hei, Simon, Mr Zhang Jianping, Ms Tang Rongrong and Mr Chan Tat Wing, Richard and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Xie Linzhen and Mr Dong Yunting.

*This announcement contains certain forward-looking statements. The words "believe", "intend", "expect", "anticipate", "estimate", "predict", "is confident", "has confidence" 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 Company operates, and are subject to risks, uncertainties and other factors that could significantly affect expected results.*

Hong Kong, 19 August 2011

* *For identification purposes only*