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 2012

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 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Six months ended 30 June	
		2012	2011
	NOTES	***HK$'000***	*HK$'000*
Revenue	3	**1,316,727**	1,265,378
Cost of sales		**(1,185,308)**	(1,142,168)
Gross profit		**131,419**	123,210
Other income	5	**29,630**	24,571
Other gains and losses	7	**(20,652)**	25,905
Research and development expenses		**(91,911)**	(76,326)
Selling and distribution costs		**(53,758)**	(47,821)
Administrative expenses		**(58,065)**	(64,038)
Finance costs		**(2,433)**	(3,497)
Loss before taxation		**(65,770)**	(17,996)
Tax credit (charge)	6	**2,494**	(2,810)
Loss for the period	7	**(63,276)**	(20,806)
Loss for the period attributable to:			
Owners of the Company		**(58,282)**	(18,748)
Non-controlling interests		**(4,994)**	(2,058)
		(63,276)	(20,806)
Loss per share (HK cents)	9		
basic and diluted		**(3.4)**	(1.2)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Loss for the period	**(63,276)**	(20,806)
Other comprehensive (expense) income:		
Exchange difference arising on translation to presentation currency	**(10,204)**	35,571
Total comprehensive (expense) income for the period	**(73,480)**	14,765
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(67,800)**	16,251
Non-controlling interests	**(5,680)**	(1,486)
	(73,480)	14,765

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**As at 30 June 2012** ***HK$'000*** ***(unaudited)***	As at 31 December 2011 *HK$'000* *(audited)*
Non-current assets			
Investment properties		**281,637**	273,023
Property, plant and equipment		**708,196**	684,271
Land use rights		**96,163**	98,401
Goodwill		**7,321**	28,321
Intangible assets		**132,756**	180,432
Deferred tax assets		**20,663**	17,946
Available-for-sale investments		**16,470**	16,605
Deposits paid for property, plant and equipment		**5,522**	11,680
		1,268,728	1,310,679
Current assets			
Inventories		**519,444**	620,729
Properties under development for sales		**232,081**	206,772
Trade receivables	*10*	**256,733**	105,512
Notes receivable	*10*	**296,352**	631,521
Other receivables, deposits and prepayments		**301,780**	293,548
Pledged bank deposits		**262,190**	171,890
Bank balances and cash		**352,604**	500,817
		2,221,184	2,530,789
Current liabilities			
Trade payables	*11*	**569,346**	871,302
Other payables, deposits received and accruals		**424,654**	327,327
Bank borrowings		**438,449**	511,472
Tax payable		**2,385**	5,214
		1,434,834	1,715,315
Net current assets		**786,350**	815,474
Total assets less current liabilities		**2,055,078**	2,126,153
Capital and reserves			
Share capital		**170,500**	170,500
Reserves		**1,751,880**	1,815,966
Equity attributable to owners of the Company		**1,922,380**	1,986,466
Non-controlling interests		**82,744**	88,424
Total equity		**2,005,124**	2,074,890
Non-current liability			
Deferred tax liabilities		**49,954**	51,263
		2,055,078	2,126,153

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH FROM OPERATING ACTIVITIES	**168,457**	628
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(64,469)**	(92,605)
Proceeds on disposal of property, plant and equipment	**206**	93
Development costs paid	**(80,900)**	(83,742)
Deposits paid for purchase of property, plant and equipment	**(5,522)**	–
Placement of pledged bank deposits	**(262,456)**	(44,583)
Withdraw of pledged bank deposits	**171,890**	349,035
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(241,251)**	128,198
FINANCING ACTIVITIES		
Issue of shares	–	237,477
Transaction costs attributable to issue of new shares	–	(7,708)
New bank borrowings raised	**219,582**	127,175
Repayments of bank borrowings	**(291,815)**	(417,203)
Dividends paid	–	(51,733)
Interest paid	**(2,433)**	(3,497)
Repurchase of shares	–	(13,195)
NET CASH USED IN FINANCING ACTIVITIES	**(74,666)**	(128,684)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(147,460)**	142
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**500,817**	534,522
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(753)**	9,302
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**352,604**	543,966

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. Its ultimate and immediate holding company is Info Dynasty Group Limited, a company incorporated in the British Virgin Islands.

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

The functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars, as the directors consider that it is a more appropriate presentation for a company listed in Hong Kong and for the convenience of the shareholders.

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. Application of new and revised International Financial Reporting Standards

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

Except as described below, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2011.

In the current period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") that are effective for the Group's financial year beginning on 1 January 2012.

IAS 12 (Amendments)	Deferred tax – Recovery of underlying assets
IFRS 7 (Amendments)	Financial instruments disclosures – Transfers of financial assets

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

Under the amendments to IAS 12 "Deferred tax – Recovery of underlying assets", investment properties that are measured using the fair value model in accordance with IAS 40 "Investment Properties" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures it investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in the amendments to IAS 12 is rebutted. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use. As a result, the application of the amendments to IAS 12 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.

The application of other amendment to IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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 executive directors, for the purpose of allocate resources to segments and assessing their performance.

The Group is currently organised into four reportable and operating segments – sale of handsets and solutions, sale of display modules, sale of wireless communication modules and property development.

As disclosed in the consolidated financial statements for the year ended 31 December 2011, property development operating activity has become substantial to the Group, therefore it is reported as a new reportable and operating segment. Figures in the segmental information for six months ended 30 June 2011 have been restated for comparative purposes only.

Segment information about these businesses is presented below:

Six months ended 30 June 2012
(Unaudited)

	Sale of handsets and solutions	Sale of display modules	Sale of wireless communication modules	Property development	Segment total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue							
External sales	1,037,257	38,701	240,769	–	1,316,727	–	1,316,727
Inter-segment sales	–	92,804	–	–	92,804	(92,804)	–
Total	1,037,257	131,505	240,769	–	1,409,531	(92,804)	1,316,727
Segment (loss) profit	(79,556)	(2,265)	9,706	(3,414)	(75,529)	–	(75,529)
Other income							13,549
Corporate expenses							(12,262)
Gain from changes in fair value of investment properties							10,905
Finance costs							(2,433)
Loss before taxation							(65,770)

Six months ended 30 June 2011 – restated
(Unaudited)

	Sale of handsets and solutions *HK$'000*	Sale of display modules *HK$'000*	Sale of wireless communication modules *HK$'000*	Property development *HK$'000*	Segment total *HK$'000*	Elimination *HK$'000*	Consolidated *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	(1,742)	(28,281)	–	(28,281)
Other income							15,560
Corporate expenses							(9,977)
Gain from changes in fair value of investment properties							8,199
Finance costs							(3,497)
Loss before taxation							(17,996)

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, finance costs and taxation.

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

	As at 30 June 2012 ***HK$'000*** ***(unaudited)***	As at 31 December 2011 *HK$'000* *(audited)*
Sale of handsets and solutions	**985,340**	1,795,330
Sale of display modules	**159,206**	359,119
Sale of wireless communication modules	**596,818**	378,461
Property development	**241,494**	255,162
Total segment assets	**1,982,858**	2,788,072

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, pledged bank deposits, bank balances and cash, deposits paid for property, plant and equipment, available-for-sale investments, deferred tax assets and certain other receivables, deposits and prepayment. Assets used jointly by reportable and operating segments are allocated on the basis of the revenues earned by individual operating segments.

5. Other income

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Refund of VAT *(Note)*	**10,270**	5,728
Government grants	**2,500**	3,283
Interest income earned on bank balances	**3,656**	7,610
Rental income (Less: outgoings of HK$346,000 (2011: HK$331,000))	**9,150**	7,848
Repairs and maintenance income	**3,978**	–
Others	**76**	102
	29,630	24,571

Note:

Shanghai Simcom Limited, Shanghai Speedcom 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 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 credit (charge)

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Tax credit (charge) comprises:		
PRC Enterprise Income Tax		
– current period	**(1,294)**	(2,687)
– overprovision in prior periods	**–**	3,570
	(1,294)	883
Deferred tax credit (charge)	**3,788**	(3,693)
	2,494	(2,810)

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 2012 (1 January 2011 to 30 June 2011: 15%).

7. Loss for the period

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Loss for the period is arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	**129,959**	75,677
Less: Amount capitalised in development costs classified as intangible assets	**(553)**	–
	129,406	75,677
Amortisation of land use rights	**1,426**	1,073
Depreciation of property, plant and equipment	**49,794**	28,765
Less: Amount capitalised in development costs classified as intangible assets	**(1,545)**	(1,470)
	48,249	27,295
Staff costs including directors' emoluments	**185,554**	169,071
Share-based payments	**3,714**	4,051
Less: Amount capitalised in development costs classified as intangible assets	**(64,584)**	(67,799)
	124,684	105,323
Operating lease rentals in respect of land and buildings	**4,396**	4,413
Less: Amount capitalised in development costs classified as intangible assets	**(934)**	(865)
	3,462	3,548
Write-down of inventories (included in cost of sales)	**10,860**	3,511
Loss on disposal of property, plant and equipment	**35**	24
Net foreign exchange loss (gain)	**10,522**	(8,023)
Gain from changes in fair value of investment properties	**(10,905)**	(8,199)
Reversal of allowance for bad and doubtful debts	**–**	(9,683)
Impairment loss recognised in respect of goodwill	**21,000**	–

8. Dividends

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Dividends recognised as distribution during the period:		
Final dividend paid for the year ended 31 December 2010 of HK3.0 cents	**–**	51,733

The directors do not recommend the payment of an interim dividend for six months ended 30 June 2012 (2011: HK1.0 cent).

9. Loss per share

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

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the period attributable to the owners of the Company)	**(58,282)**	(18,748)
	'000	'000
Number of shares		
Number of ordinary shares in issue (30 June 2011: weighted average number of ordinary shares) for the purpose of basic loss per share	**1,704,999**	1,577,784

The computation of diluted loss per share for the six months ended 30 June 2012 and 2011 does not assume the exercise of the Company's share options as it would reduce loss per share.

10. Trade receivables and notes receivable

The normal credit period taken on sales of goods is 0 to 120 days. The following is an aged analysis of trade receivables and notes receivable presented based on the invoice date at the end of the reporting period:

	As at 30 June 2012 HK$'000 (unaudited)	As at 31 December 2011 HK$'000 (audited)
0 – 30 days	**142,418**	83,370
31 – 60 days	**64,368**	9,238
61 – 90 days	**11,880**	5,827
91 – 180 days	**24,602**	6,434
Over 180 days	**25,704**	12,982
	268,972	117,851
Less: Accumulated allowances	**(12,239)**	(12,339)
Trade receivables	**256,733**	105,512
0 – 30 days	**265,634**	609,155
31 – 60 days	**6,263**	3,783
61 – 90 days	**6,921**	6,599
91 – 180 days	**17,534**	11,984
Notes receivable *(Note)*	**296,352**	631,521

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

11. Trade payables

The aged analysis of the Group's trade payables at the end of the reporting period presented based on the invoice date is as follows:

	As at 30 June 2012 HK$'000 (unaudited)	As at 31 December 2011 HK$'000 (audited)
0 – 30 days	**494,403**	651,230
31 – 60 days	**53,580**	184,506
61 – 90 days	**4,720**	2,102
Over 90 days	**16,643**	33,464
	569,346	871,302

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders for the six months ended 30 June 2012.

MARKET AND BUSINESS REVIEW

Business Review

In the first half of 2012 ('1H-2012"), the Group has encountered unprecedented difficulties in its operations. Perhaps most importantly, the Group recorded a significant loss in handset business. In the global handset industry, virtually every other handset providers, save for two globally dominant brands, also encountered daunting challenges. Under such circumstances, our customers were adversely affected and we were no exception. Our profit managed to remain stable in the communication module segment, but the sluggish global economy dragged down the market demand beneath expectations during the first half of the year. There was strong market demand for display modules, in particular for capacity touch panels ("CTP"), as our production lines were still at the construction stage in 1H-2012 and has not yet been able to make a profit contribution to the Group. Besides, the impairment on goodwill from the acquisition of a subsidiary in 2009 increased its loss during the period. Therefore, the net loss of the Group for 1H-2012 surged to HK$58.3 million (2011: HK$18.7 million).

Handset business

In 1H-2012, the transition to high-end ODM in our handset business was unsuccessful mainly due to the unexpected serious problems occurred in the Group's targeted market and customers. The significant changes in the global handset industry, and two handset giants locked up more than 90% of the profit of the entire handset industry, leaving other handset providers to operate at a loss or struggle with gross profit plummeting to the brink of losses.

Local Japanese market

The above said handset giants have also taken a market share exceeding 50% or more from the local Japanese brands. The high-end international ODM market, particularly in Japan, was the key market for our transition into the high-end ODM in handset business, but our Japanese customers have now encountered unexpected difficulties requiring them to replan their business strategies and directions. The original projects, which we had previously secured and including products developed and evaluated by us, were all cancelled while the new projects are pending their strategic decision. Even if the new projects could be confirmed shortly, due to the long product development cycle, they would not contribute to our business results this year and the first half of next year. The Group recorded some shipment of ODM smart phones to the Chinese operators under a Japanese brand in 1H-2012, but was below our expectations. In addition, the said Japanese brand suspended the business cooperation with the Group starting from the second half of 2012 because of its new investors. Meanwhile the Group is holding exploratory discussions with new international customers, but any business resulting is not expected to contribute to our results in the near term.

Operator procurement market

The operators have secured a dominant role in the smart phone market by offering tariff subsidies and procurement through tendering. Due to the practice of bulk volume procurement, branded handset providers have adopted a low-price strategy for tendering intending to win the tender at the lowest possible price, with the aim to capture a larger market share. In using this approach, the branded handset providers do not intend to gain profit and even anticipate losses. Under such circumstances, the Group, as an ODM handset provider, is also not likely to record a profit. The Group even needs to provide credit terms to some renowned customers. Since both the handset sales volume and turnover of this market are huge, we will not exit this market but will adopt the strategy of risk control and keep on exercising our minimum customer price level policy. While our monthly production and delivery capacity of smart phones exceeded 1 million units, the total shipping volume of our smart phones reached only 2.16 million units in 1H-2012.

Open market

The Group has exited the low-to mid-end feature phone market. As all current handset product sales in the open market are smart phones, and this market is open and therefore highly competitive, both our shipping volume and gross profit were below expectation.

New market expansion for handsets

Due to the intense competition caused by the commoditisation in the traditional handset market, product differentiation is the way forward for the Group. Towards this end, the Group is actively leading the way in expanding into new market segments for handsets, including creating smart phones for industry use and for “Internet of Things” applications. Orders for these products should earn a more reasonable gross profit for the Group even though the quantity of each order is not high. This differentiation would represent a challenging repositioning and retransformation of the Group’s handset business.

Broaden income sources and reduce expenditures to control costs

Taking into account that the benefits of the Group’s efforts to broaden income sources (increase income) will not be too evident in the short term, the Group has redoubled its efforts to control expenditures and lower costs in recent years and these efforts have begun to yield fruit.

Communication module business

Regarding communication modules, clients and end users alike in overseas markets experienced strong cost pressure due to the testing economic conditions and subsequent lack of consumer confidence. Against this unfavourable backdrop, however, the Group’s competitive products were able to accelerate their penetration into markets both in Europe and North America as it forged closer collaboration with overseas operators. While the SIM900 (2G) family remained the most popular product in the wireless module segment, the SIM5320 (3G) was also well-received due to its backward compatibility with 2G products. Besides, the SIM5320’s “value for money” advantage was endorsed by well-known operators in North America to their customers. Furthermore, the Group also launched the SIM800 family of products utilising the MTK platform, with a low-cost advantage, targeted at a wide-range of market segments. In the PRC, the Group maintained its leading market share and boosted its collaboration with major local operators on M2M application projects, and these projects have been widely deployed in several areas.

Display modules business

Anticipating the continuous market demand for the CTP used in smart phones and other handheld terminals, the Group has integrated its display module business unit with the CTP manufacturing plants in both Shanghai and Shenyang to form a new display module business unit. This new business unit will design and produce LCM display modules and CTP modules as well as hybrid LCM-CTP modules to be supported the Group's ODM smart phones, enabling the Group's handsets to stay ahead of the competition. To exploit this business opportunity, the Group has expanded the display module business to external sales. These modules have enjoyed a positive market response since their debut. In June alone, the shipping volume of CTP modules accounted for 70% of the Group's total shipping volume of display modules and the management believes that sales will sustain upward momentum in the near future.

PROSPECTS

Although the operating environment of the handset industry will continue to be challenging, the scale of the handset business is not likely to be replaced in the short term. While exploring an appropriate direction for its transition, the Group continues its ongoing efforts in the R&D of mid-range to high-end handsets, including 4G LTE smart phones to meet the strict quality specifications and price requirements of customers and operators. In addition, the Group will devote greater resources to develop new markets. The Group is committed to exploring new opportunities in differentiating smart phones in areas such as industrial applications and for the "Internet of things" segments in order to expand market coverage and enhance overall gross profit margin of the Group's handset business.

Looking ahead, the handset industry and the global operating environment are fraught with challenges, and the Group's handset business is expected to take time to recover. However, with a committed management team and a healthy financial position, in addition to the rising growth momentum and strong competitive edge in the communication module and display module segments, the management believes the Group should return to profitability once the plan for business repositioning and transition is successfully implemented. Thus, we are confident of achieving sustained growth in the medium-to-long term.

FINANCIAL REVIEW

For the six months ended 30 June 2012 ("1H-2012"), the Group's revenue increased slightly by 4.1% to HK$1,316.7 million (2011: HK$1,265.4 million) as compared with that of the first half of 2011 ("1H-2011"). The sales increase was attributable to the increase in the sale of ODM handsets in 1H-2012, which had much higher average selling price than feature phones.

The gross profit of the Group increased by 6.7% to HK$131.4 million (2011: HK$123.2 million) for 1H-2012 as compared to 1H-2011 while the gross profit margin stayed flat at 10% (2011: 9.7%).

The Group incurred a loss for the reporting period of HK$58.3 million (2011: HK$18.7 million). The loss was mainly attributable to the significant segment loss incurred in handsets and solutions segment as well as the recognition of impairment on the goodwill arising from the acquisition of a subsidiary in year 2009. The basic loss per share was HK3.4 cents (2011: HK1.2 cents).

Segment results

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	Revenue	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	HK$'M	***HK$'M***	***%***	*HK$'M*	*HK$'M*	*%*
Handsets and solutions	**1,037**	**83**	**8.0**	934	76	8.2%
Wireless communication modules	**241**	**45**	**18.9**	273	51	18.6%
Display modules	**39**	**3**	**8.2**	58	(4)	(6.3%)
Total	**1,317**	**131**	**10.0**	1,265	123	9.7%

Handsets and solutions

For 1H-2012, the revenue of the handsets and solutions segment increased by 11.1% because of the increase in ODM sales as compared to 1H-2011. The revenue of ODM handsets and solutions was about 50% and 29% (2011: 27% and 47%) respectively of the total revenue of the Group. The turnover of smart phones for 1H-2012 was about 96% (2011: 8%) of the turnover of the handsets and solutions segment.

Wireless communication modules

For 1H-2012, because of the testing economic conditions and subsequent lack of consumer confidence, market demand was weak. The revenue of wireless communication modules decreased by 11.7% as compared with that in 1H-2011 but the gross margin stayed flat at 18.9% (2011: 18.6%) in 1H-2012.

Display modules

Portion of the display modules had been included as part of the Group's full handset sales, actual growth of display modules were embed in the Group's ODM business. The gross profit margin of display modules increased to 8.2% (2011: loss of 6.3%) due to the significant increase in the proportion of the CTP revenue out of the total display modules revenue (almost all revenue in 1H-2011 were from LCM modules), and the gross profit margin of CTP being more reasonable compared to that of LCM, which was too low.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 June 2012, the Group had bank balances of HK$352.6 million (31 December 2011: HK$500.8 million), excluding pledged bank deposits (in Renminbi and US dollars) for the purpose of US dollars borrowings, among of which 82.3% was held in Renminbi, 17.5% was held in US dollars and the remaining balance was held in Hong Kong dollars. The Group had net bank balances (total bank balances less bank borrowings) of HK$176.3 million (31 December 2011: HK$161.2 million). The Group intends to finance its working capital and capital expenditure plans from such bank balances.

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

	For the six months ended 30 June 2012 Days	For the year ended 31 December 2011 Days
Inventory turnover period	**87**	63
Trade receivables turnover period	**25**	12
Notes receivable turnover period	**64**	41
Trade payables turnover period	**132**	88

The increase in inventory turnover period was because our customers asked for deferral of shipment and about 34% of the inventory as at 30 June 2012 were finished products. The increase in the turnover period of trade receivables was because the Group granted longer credit terms since June of this year upon the request of some renowned customers, resulted in the increase in trade receivables. The trade receivables is expected to increase more in the second half of 2012. In the fourth quarter of 2011, the purchase volume of the Group was large which resulted in a larger trade payables balance at the beginning of this year, and the purchase amount in 1H-2012 was not large, as a result, the trade payables turnover period increased significantly.

As at 30 June 2012, the current ratio, calculated as current assets over current liabilities, was 1.5 times (31 December 2011: 1.5 times).

Other than entering into non-deliverable foreign exchange forward contracts to eliminate the foreign exchange exposures in US dollars denominated bank borrowings, the management of the Group considered that it was not necessary to use any other financial instrument for hedging purpose or adopt any particular hedging policy.

As at 30 June 2012, the Company had 1,704,999,000 ordinary shares of HK$0.10 each in issue.

GEARING RATIO

As at 30 June 2012, the total assets value of the Group was HK$3,489.9 million (31 December 2011: HK$3,841.5 million) and the bank borrowings was HK$438.4 million (31 December 2011: HK$511.5 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 12.6% (31 December 2011:13.3%).

EMPLOYEES

As at 30 June 2012, the Group had 4,606 (31 December 2011: 4,979) 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, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the reporting period.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in (i) the former Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012 and (ii) the revised and renamed Corporate Governance Code as set out in Appendix 14 to the Listing Rules (both hereinafter referred to as "Corporate Governance Code") for the period from 1 April 2012 to 30 June 2012.

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 18 May 2012 ("2012 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 2012 AGM on behalf of the chairman of the Board 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 and the Audit Committee, was also available at the 2012 AGM to answer questions from shareholders of the Company.

According to the code provision A6.7 of the Corporate Governance Code, the independent non-executive Directors should also attend general meetings of the Company.

At the 2012 AGM, Mr Xie Linzhen and Mr Dong Yunting, each an independent non-executive Director, were unable to attend due to unexpected business engagement.

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 period under review.

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 2012. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2012 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 2012 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.

DIRECTORS

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.

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

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, 21 August 2012

* *For identification purposes only*