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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 2013

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 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	<i>NOTES</i>	Six months ended 30 June	
		2013	2012
		HK\$'000	HK\$'000
Revenue	3	786,605	1,316,727
Cost of sales		(711,882)	(1,185,308)
Gross profit		74,723	131,419
Other income	5	29,080	29,630
Other gains and losses		(16,430)	(20,652)
Research and development expenses		(109,190)	(91,911)
Selling and distribution costs		(43,918)	(53,758)
Administrative expenses		(54,975)	(58,065)
Share of results of an associate		158	—
Finance costs		(685)	(2,433)
Loss before taxation		(121,237)	(65,770)
Tax (charge) credit	6	(4,966)	2,494
Loss for the period	7	(126,203)	(63,276)
Loss for the period attributable to:			
Owners of the Company		(125,957)	(58,282)
Non-controlling interests		(246)	(4,994)
		(126,203)	(63,276)
Loss per share (HK cents)	9		
Basic and diluted		(5.0)	(3.4)

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

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(126,203)	(63,276)
Other comprehensive (expense) income		
Items that may not be subsequently reclassified to profit or loss for the period:		
Exchange difference arising on translation to presentation currency	13,304	(10,204)
Surplus on transfer of land use rights and property, plant and equipment to investment properties at fair value	11,031	—
Deferred tax liabilities on surplus on transfer of land use rights and property, plant and equipment to investment properties at fair value	(2,758)	—
Total comprehensive expense for the period	<u>(104,626)</u>	<u>(73,480)</u>
Total comprehensive (expense) income attributable to:		
Owners of the Company	(105,453)	(67,800)
Non-controlling interests	827	(5,680)
	<u>(104,626)</u>	<u>(73,480)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Non-current assets			
Investment properties		312,885	291,575
Property, plant and equipment		661,262	699,821
Land use rights		94,362	97,055
Intangible assets		60,111	81,954
Interest in an associate		30,160	—
Deferred tax assets		25,645	21,100
Entrusted loan receivables		50,600	—
Deposit paid for a land use right		10,753	—
Available-for-sale investments		17,078	16,875
		1,262,856	1,208,380
Current assets			
Inventories		272,806	271,266
Properties under development for sale		344,082	161,423
Properties held for sale		34,800	84,765
Trade receivables	10	300,306	366,099
Notes receivables	10	74,675	71,502
Other receivables, deposits and prepayments		281,933	245,735
Pledged bank deposits		66,571	34,991
Bank balances and cash		374,542	1,019,173
		1,749,715	2,254,954
Current liabilities			
Trade payables	11	326,944	374,169
Other payables, deposits received and accruals		249,190	245,504
Amounts due to shareholders on oversubscription of Rights Issue		—	480,489
Amount due to a non-controlling shareholder of a subsidiary		37,950	37,500
Bank borrowings		230,927	50,767
Tax payable		842	6,729
		845,853	1,195,158
Net current assets		903,862	1,059,796
Total assets less current liabilities		2,166,718	2,268,176
Capital and reserves			
Share capital		255,750	170,500
Reserves		1,723,171	1,911,739
Equity attributable to owners of the Company		1,978,921	2,082,239
Non-controlling interests		90,461	89,634
Total equity		2,069,382	2,171,873
Non-current liabilities			
Deferred tax liabilities		49,626	47,244
Deferred income		47,710	49,059
		97,336	96,303
		2,166,718	2,268,176

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	26,015	136,792
Increase in properties under development for sales and properties held for sales	(132,694)	(25,628)
Other movements in working capitals	(9,977)	59,273
Cash (used in) generating from operations	(116,656)	170,437
Interest received	1,345	3,656
Tax paid	(16,108)	(4,115)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(131,419)	169,978
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(44,912)	(65,990)
Proceeds on disposal of property, plant and equipment	647	206
Development costs paid	(45,667)	(80,900)
Investment in an associate	(30,000)	—
Deposits paid for purchase of land use right	(10,753)	(5,522)
Investment in entrusted loan receivables	(50,600)	—
Placement of pledged bank deposits	(31,580)	(262,456)
Withdrawal of pledged bank deposits	—	171,890
NET CASH USED IN INVESTING ACTIVITIES	(212,865)	(242,772)
FINANCING ACTIVITIES		
New bank borrowings raised	230,927	219,582
Repayments of bank borrowings	(50,767)	(291,815)
Interest paid	(685)	(2,433)
Refund to shareholders on over-subscription of Rights Issue	(480,489)	—
NET CASH USED IN FINANCING ACTIVITIES	(301,014)	(74,666)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(645,298)	(147,460)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,019,173	500,817
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	667	(753)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	374,542	352,604

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 condensed 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012. In addition, the Group has applied the following accounting policies for the first time during the current interim period.

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in an associate is initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

If the initial accounting for the acquisition of an associate is incomplete by the end of the reporting period in which the acquisition occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's condensed consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

In the current interim period, the Group has applied, for the first time, the following new or revised International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard Board ("IASB") that are relevant for the preparation of the Group's condensed consolidated financial statements:

IFRSs (Amendments)	Annual improvements to HKFRSs 2009-2011 cycle
IFRS 7 (Amendments)	Disclosures – Offsetting financial assets and financial liabilities
IFRS 10, IFRS 11 and IFRS 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurement
IAS 1 (Amendments)	Presentation of items of other comprehensive income
IAS 19 (as revised in 2011)	Employee benefits
IAS 28 (as revised in 2011)	Investments in associates and joint ventures
IFRIC 20	Stripping costs in the production phase of a surface mine

IFRS 13 Fair value measurement

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for “fair value” and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. The application of IFRS 13 in the current interim period has had no material impact on the fair value measurement of the Group’s investment properties.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively.

Amendments to IAS 1 Presentation of items of other comprehensive income

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and a statement of income statement is renamed as a statement of profit or loss. The amendments to IAS 1 also require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2012 were authorised for issuance and are not yet effective:

Amendments to IAS 36	Recoverable amount disclosures for non-financial assets ¹
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting ¹
IFRIC 21	Levies ¹

¹ Effective for accounting periods beginning on or after 1 January 2014.

The directors anticipate that the application of these 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, being 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.

Segment information about these businesses is presented below:

Six months ended 30 June 2013

(Unaudited)

	Sale of handsets and solutions <i>HK\$'000</i>	Sale of display modules <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue							
External sales	408,083	89,633	217,330	71,559	786,605	–	786,605
Inter-segment sales	–	5,207	–	–	5,207	(5,207)	–
Total	<u>408,083</u>	<u>94,840</u>	<u>217,330</u>	<u>71,559</u>	<u>791,812</u>	<u>(5,207)</u>	<u>786,605</u>
Segment (loss) profit	<u>(122,750)</u>	<u>(27,187)</u>	<u>5,845</u>	<u>8,252</u>	<u>(135,840)</u>	<u>–</u>	<u>(135,840)</u>
Other income, gains and losses							26,569
Share of results of an associate							158
Corporate expenses							(11,439)
Finance costs							(685)
Loss before taxation							<u>(121,237)</u>

Six months ended 30 June 2012
(Unaudited)

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

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, certain net exchange gain, share of results of an associate, 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 2013 <i>HK\$'000</i> <i>(unaudited)</i>	As at 31 December 2012 <i>HK\$'000</i> <i>(audited)</i>
Sale of handsets and solutions	768,585	1,013,468
Sale of display modules	172,021	193,636
Sale of wireless communication modules	531,942	499,403
Property development	<u>490,880</u>	<u>277,221</u>
Total segment assets	<u>1,963,428</u>	<u>1,983,728</u>

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, interest in an associate, entrusted loan receivables, deposit paid for land use right, pledged bank deposits, bank balances and cash, 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	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Refund of Value Added Tax ("VAT") (Note i)	3,504	10,270
Government grants	14,181	2,500
Interest income earned on bank balances	1,345	3,656
Rental income (Less: outgoings of HK\$145,000 (six months ended 30 June 2012: HK\$146,000))	9,598	9,150
Repair and maintenance income (Note ii)	—	3,978
Others	452	76
	29,080	29,630

Notes:

- (i) Shanghai Simcom 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 VAT paid for sales of self-developed and produced software in the PRC.
- (ii) The amount represented repairs and maintenance services provided to a customer of the sale of mobile handsets and solutions during the six months ended 30 June 2012.

6. Tax (charge) credit

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Tax (charge) credit comprises:		
PRC Enterprise Income Tax	(4,528)	(1,294)
PRC Land Appreciation Tax ("LAT")	(1,073)	–
Underprovisions on PRC Enterprise Income Tax in previous years	(4,620)	–
Deferred tax credit	5,255	3,788
	<u>(4,966)</u>	<u>2,494</u>

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 25% for six months ended 30 June 2013 (six months ended 30 June 2012: 15%).

The provision of LAT 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% of the appreciation value, with certain allowable deductions.

7. Loss for the period

	Six months ended 30 June	
	2013	2012
	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)	65,201	129,959
Less: Amount capitalised in development costs classified as intangible assets	(1,206)	(553)
	63,995	129,406
Amortisation of land use rights	1,473	1,426
Depreciation of property, plant and equipment	46,599	49,794
Less: Amount capitalised in development costs classified as intangible assets	(1,415)	(1,545)
	45,184	48,249
Staff costs including directors' emoluments	159,568	185,554
Share-based payments	2,135	3,714
Less: Amount capitalised in development costs classified as intangible assets	(33,238)	(64,584)
	128,465	124,684
Operating lease rentals in respect of land and buildings	4,079	4,396
Less: Amount capitalised in development costs classified as intangible assets	(282)	(934)
	3,797	3,462
Write-down of inventories (included in cost of sales)	4,998	10,860
Cost of inventories recognised as expense (included in cost of sales)	642,715	1,182,770
Cost of properties sold (included in cost of sales)	55,458	—
Loss on disposal of property, plant and equipment (included in other gains and losses)	133	35
Net foreign exchange (gain) loss (included in other gains and losses)	(13,855)	10,522
Gain from changes in fair value of investment properties (included in other gains and losses)	—	(10,905)
Allowance for bad and doubtful debts (included in other gains and losses)	12,250	—

8. Dividends

The directors do not recommend the payment of an interim dividend for six months ended 30 June 2013 and 2012.

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	
	2013	2012
	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)	<u>(125,957)</u>	<u>(58,282)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,543,369</u>	<u>1,704,999</u>

The computation of diluted loss per share for the six months ended 30 June 2013 and 2012 does not assume the exercise of the Company's share options as it would reduce loss per share.

10. Trade receivables and notes receivables

The normal credit period given on sale of goods relating to handsets and solutions, display modules and wireless communication modules is 0 – 90 days. A longer period is granted to a few customers with whom the Group has a good business relationship and which are in sound financial condition. There is no credit given to sales of properties.

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 reporting period, which approximated the revenue recognition dates:

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
0 – 30 days	243,789	338,542
31 – 60 days	36,467	4,361
61 – 90 days	3,702	4,452
91 – 180 days	12,738	9,855
Over 180 days	29,703	21,529
	326,399	378,739
Less: Accumulated allowances	(26,093)	(12,640)
Trade receivables	<u>300,306</u>	<u>366,099</u>
0 – 30 days	57,045	62,606
31 – 60 days	11,537	2,140
61 – 90 days	–	2,525
91 – 180 days	6,093	4,231
Notes receivables (Note)	<u>74,675</u>	<u>71,502</u>

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

11. Trade payables

An 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 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
0 – 30 days	257,998	279,256
31 – 60 days	12,460	29,518
61 – 90 days	965	24,518
Over 90 days	55,521	40,877
	<u>326,944</u>	<u>374,169</u>

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 2013.

MARKET AND BUSINESS REVIEW

Business review

The handset industry in the People’s Republic of China (“PRC”) has experienced intense competition in the past few years and the competition continued to intensify in the first half of 2013 (“1H-2013”). The widespread Eurozone debt crisis and increased downside risk of the PRC economy have created a more difficult environment for the handset industry. Consequently, most players in the industry generally recorded losses. The impact of the price war in the ODM handset market in the PRC has caused the Group to substantially scale down its ODM business which had targeted the operator procurement market. Meanwhile, the high-end ODM business with Japanese customers also downsized severely. All these adverse factors have led to an unprecedented loss of the Group’s handsets and solutions business in 1H-2013.

Due to the combined effect of the highly intensive market competition and raw material supply shortage, the Group failed to reach the assigned target despite that delivery volume of wireless communication modules increased mildly in 1H-2013. Therefore, this business segment inevitably recorded a slight decrease in both turnover and gross profit. In addition, the Group has also expanded its investment in the R&D of 3G and 4G module products, thus resulting in a significant drop in segmental profit of the wireless communication modules business in 1H-2013.

The display modules business recorded a surge in turnover over the same period last year, as the Group’s capacity touch panel business was still in its initial development stage in the first quarter of 2012 with both delivery volume and turnover at a lower level. However, the segmental turnover recorded a decrease when compared to the second half of 2012. Starting from early 2013, there was an excess supply in the capacity touch panel market and the ensuing drop in product prices was faster than expected. As a result, both the turnover and gross profit in this segment performed beneath expectation in 1H-2013. This, together with the relocation of the production base from Shenyang to Shanghai, has led to a substantial loss in the display modules business in 1H-2013.

The Group completed the construction of Phase I of the Riverside Country (a commercial and residential apartment complex in Shenyang City) in 2012 and continued to develop the commercial areas and Phase II and of the Riverside Country which are expected to be completed in the third quarter of 2013 and 2014 respectively.

Handsets and solutions

In 1H-2013, the Group's ODM handset business has declined substantially. On the one hand, the Group has scaled down the ODM business in the PRC, which was the operator procurement channel and had contributed a higher income in the past. On the other hand, as the domestic handset market in Japan was hit hard by Apple and Samsung, the Japanese handset customers gradually reduced the scale of their handset business, and some of them even withdrew from the smart phone segment altogether, only maintaining their feature phone business. As a result, the Group's business which targeted high-end customers in Japan was basically stagnant. Given that other high-end ODM customers and their business volumes were comparatively not significant, turnover of the Group's handsets and solutions segment dropped as compared to the corresponding period last year.

The Group has shifted its key R&D resources to high-end ODM handsets and the "Internet of Things" (IOT) industrial application terminals with focuses on 4G LTE technology and mid-to high-end products for local and overseas upmarket customers, aiming to offer customers a comprehensive one-stop service from product design and manufacturing to delivery as well as data and operation services. The Group has also continued to expand into the "Internet of Things" and industrial application markets, including smart phones and tablets targeting specific industries such as medical and healthcare, express logistics, retail services, automobile, intranet for parents and teachers and law enforcement; industrial application terminals featuring 1D and 2D barcode scanning functions, police handsets with fingerprint identification and ID card identification functions. The Group is currently developing LTE smart terminals for industrial use with the highest standards in dustproof, shock resistant and waterproof for industrial application brand customers in North America. Mass delivery of these products is expected to commence in the second quarter of 2014.

Wireless communication modules

In 1H-2013, the Group has established a high-end customer base in the PRC power market covering major smart meter suppliers in the industry. At the same time, as the Group continues to expand its target market, it has also enhanced R&D capabilities targeted at high-end 3.75G/4G platform products and has expanded the CDMA1X product series, aiming to meet different needs of customers by providing products of various operational standards such as CDMA 1X/HSPA+/LTE. The Group has also entered into a cooperation agreement with Oracle following the Oracle Global Summit to introduce Oracle's advanced technologies applied in JAVA virtual machines to the Group's wireless modules. This helps to reduce the product development cycle of customers' products and lower development costs, while increasing the value added to the Group's products and services.

Display modules

With an excess supply of LCD modules (LCM) and capacity touch panels (CTP), the unit selling price of these products has dropped notably, leading to a sharp decrease in the gross profit of this segment. To facilitate centralised management, the Group has moved the production base of display modules to Shanghai in 1H-2013. The integration of production bases has resulted in a 20% to 30% increase in production capacity compared with the original two production bases which were located in Shenyang and Shanghai respectively. However, the move has taken time which has had an impact on the production and delivery schedule. This, plus the high costs associated with renovation of the plant, compensation for workers, a halt in production during the move and tests of equipment, have caused a substantial segmental loss in the display module business in 1H-2013.

Real estate projects

Shenyang SIM Real Estate Limited, a subsidiary of the Group in which the Company owns 60% of equity interest, holds a parcel of land in Shenyang City (“Shenyang Land”). The Shenyang Land is located at the Daoyi Development Zone, No. 32, North of Shenbei Development Avenue, Shenbei New District, Shenyang City, Liaoning Province, the PRC (originally Daoyi Development Zone, No. 25, north of Shenbei Development Avenue, Shenbei New District). The Shenyang Land has been developed into a commercial and residential apartment complex, named “The Riverside Country” (晨興•翰林水郡).

Construction of Phase I of The Riverside Country was completed in 2012 and a total of 404 residential units were launched for sale in the market. Up to June 2013, a total of 367 units were sold and out of which 358 units were delivered. The sales recognised in 1H-2013 amounted to HK\$71.6 million (first half of 2012: Nil) and the gross profit margin was 24.0%.

In 2013, the Group continued the development in both residential and commercial property projects. The construction of the commercial areas is expected to be completed in the third quarter of 2013, and construction of Phase II of The Riverside Country is expected to be completed by phases starting from 2014. The Group plans to develop this property project into a prototype of an “Internet of Things demonstrative community” and it is expected that the investment returns generated from Phase II of The Riverside Country will be higher than those from Phase I.

As announced previously, the Group has purchased a land parcel in Taizhou City, Jiangsu Province, the PRC (“Taizhou Land”) through its subsidiary Shanghai Speedcomm Technology Limited at an aggregate price of RMB109 million. The Taizhou Land is located at the south side of and nearby the Jichuan East Road and at the west side of and nearby the Qili River of Hailing District in Taizhou City, Jiangsu Province, the PRC with a total gross floor area of approximately 60,789 square meters. The Group plans to cooperate with a local Taizhou company specializing in photovoltaic systems to develop Taizhou Land into an intelligent residential district with such project named as “IOT and New Generation Energy Model Residential Area”. Through the cooperation and joint investment with the local partner, it is intended that the Group could leverage its expertise in research and development of application solutions for IOT and be responsible for IOT development in the district and the local partner would be responsible for the construction of new generation energy power stations in the district. As at the date of this announcement, the construction is still at a preliminary stage.

PROSPECTS

The Group was formerly an independent handset design house which mainly provided design and R&D of terminals for customers during the time before and immediately after its listing. Starting from 2007, the Group began to provide full handset ODM services to customers and after years of progress, the Group has the ability to provide mid to high-end ODM services to upmarket customers. Today, the Group has gradually started developing the industrial application terminals under its self-owned brands, however, it is not satisfied with being only a player in the traditional manufacturing industry. As a result, the Group targets to tap into the contemporary service industry by providing full integrated solutions for terminals and backend application systems. In some of the areas, the Group will provide to customers cross-sector services including Internet of Things data and operation services, together with the corresponding equipment financial leasing and product wholesale services. The Group's first integrated solution and cross-sector operation service project has commenced in June 2013, which is expected to generate returns for the Group in mid-2014.

In 1H-2013, the Group has recorded the largest loss since its establishment, which is an inevitable result of a sluggish economy and keen competition in the industry, all while implementing a business transformation. However, the Group is confident that the adjustment in its target market and business model would gradually boost its revenue and profit. Thus it expects the loss to be reduced in the near future while revenue and profit will show higher growth in the mid-to long-term.

Financial review

For 1H-2013, the revenue of the Group was HK\$786.6 million (2012: HK\$1,316.7 million), in which the revenue from sale of handsets and solutions, wireless communication modules and display modules ("core business") decreased significantly by 45.7% to HK\$715.0 million (2012: 1,316.7 million) as compared with that of the first half of 2012 ("1H-2012"). The decrease in the revenue of core business was mainly attributable to the significant drop in the revenue of handsets and solutions business in 1H-2013. The revenue from the sale of residential units in Shenyang, PRC was HK\$71.6 million (2012: Nil) in 1H-2013.

Under the severe price competition, the gross profit for 1H-2013 for core business of the Group decreased substantially year-on-year by 56.2% to HK\$57.6 million (2012: HK\$131.4 million). The gross profit margin for core business decreased to 8.1% (2012: 10%). The overall gross profit margin of the Group for 1H-2013 was 9.5%.

The Group incurred a loss attributable to owners of the Company of HK\$126.0 million in 1H-2013 (2012: HK\$58.3 million). The significant loss incurred was mainly attributable to the significant decrease in the revenue of the Group in 1H-2013 as the Group is still undergoing business transformation and the new handset products have not yet started to generate reasonable returns to the Group. The basic loss per share for 1H-2013 was HK5 cents (2012: HK3.4 cents).

Segment results of core business

	Six months ended 30 June 2013			Six months ended 30 June 2012		
	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %
Handsets and solutions	408	23	5.6%	1,037	83	8.0%
Wireless communication modules	217	34	15.5%	241	45	18.9%
Display modules	90	1	1.3%	39	3	8.2%
Total	<u>715</u>	<u>58</u>	<u>8.1%</u>	<u>1,317</u>	<u>131</u>	<u>10.0%</u>

Handsets and solutions

For 1H-2013, the revenue and gross profit of the handsets and solutions segment decreased significantly by 60.7% and 72.6% respectively as compared to those in 1H-2012. The decreases were due to the scale down of the Group's ODM business caused by the price war in the ODM handset market in China, which was the operator procurement channel and had contributed a higher income in the past. The revenue of ODM business was about 53% of the revenue of this segment in 1H-2013 (2012: 76%). In addition, the new handsets products have not yet started to generate reasonable returns to the Group.

Wireless communication modules

The revenue for wireless communication modules for 1H-2013 decreased slightly by 9.7% as compared to that of 1H-2012. The gross profit margin dropped to 15.5% (2012: 18.9%) in 1H-2013. This was due to the combined effect of the highly intensive market competition and raw material supply shortage.

Display modules

The turnover of this segment increased significantly by 1.3 times as compared to that of 1H-2012, as the Group's CTP business was still in its initial development stage in the first quarter of 2012 with both delivery volume and turnover at a lower level. However, with an excess market supply of LCM and CTP in 1H-2013, the unit selling price of these products has dropped notably, leading to a sharp decrease in the gross profit of 62.9% of this segment as compared to that of 1H-2012. In addition, the relocation of the production base from Shenyang to Shanghai has led to a substantial segmental loss in this segment during 1H-2013.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

At 30 June 2013, the Group had bank balances and cash of HK\$374.5 million (31 December 2012: HK\$1,019.2 million (including the cash then to be refunded to Shareholders on over-subscription of rights issue completed during 1H-2013)), among of which 65.4% was held in Renminbi, 29.5% was held in US dollars and the remaining balance was held in Hong Kong dollars. The Group also had pledged bank deposits of HK\$66.6 million (31 December 2012: HK\$35.0 million) in Renminbi and US dollars for the purpose of the Group's US dollars borrowings. The Group had net bank balances (total bank balances less bank borrowings) of HK\$210.2 million (31 December 2012: HK\$1,003.4 million). 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 bank deposits, property, plant and equipment, notes receivables and land use rights) to secure the bank borrowings.

Operating Efficiency

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

	For the six months ended 30 June 2013 Days	For the year ended 31 December 2012 Days
Inventory turnover period [#]	75	64
Trade receivables turnover period [#]	84	31
Notes receivables turnover period [#]	18	46
Trade payables turnover period	59	101

[#] for the core business

The increase in the turnover period of trade receivables was because the Group granted longer credit terms since June of year 2012 upon the request of some renowned customers. The decrease in notes receivables turnover period was due to the average balance of notes receivables significantly decreased as compared to that of year 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 year 2012, while the purchase amount in year 2012 was not large, as a result, the trade payables turnover period was substantially long in year 2012. The trade payables turnover period in 1H-2013 was consistent with the normal terms provided by suppliers (30 to 60 days).

As at 30 June 2013, the current ratio, calculated as current assets over current liabilities, was 2.1 times (31 December 2012: 1.9 times).

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. During 1H-2013, the Group has entrusted a total amount of HK\$50.6 million under certain asset management agreements for an investment period of two years. The investment scope of these entrusted assets are limited to the investment products under 長安信託•卉誠實業委託貸款單一資金信託合同 (Chang An Trust • Hui Cheng Shi Ye Entrusted Loan Single Fund Trust Agreement (numbered 信單卉誠 (Xin Dan Hui Cheng) 13020056). The management expected the average annual return rate for such entrusted assets to be about 7%. The Group intends to continue to entrust more assets in similar terms in the future should the opportunity arises so as to raise the utilisation rate of its capital and improve the investment returns and the profits of the Group. During 1H-2013, the Group did not have any other security or capital investments or derivative investments.

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.

Fund Raising

On 5 October 2012, the Company announced that it proposed to issue not less than 852,499,500 shares at the subscription price of HK\$0.20 per share by way of rights issue on the basis of one rights share for every two existing shares held on the record date. The underwriter of the rights issue was Toman Investments Limited, which was a connected party to the Company and with 25% owned by Mr Wong Sun, 25% owned by Mr Wong Hei, Simon, 25% owned by Mr Wong Cho Tung and 25% owned by Ms Yeung Man Ying. The rights issue was completed on 4 January 2013 and the Company issued 852,499,500 shares at HK\$0.20 per share and raised net proceeds (after deducting the relevant expenses) of approximately HK\$167.0 million.

As at 30 June 2013, the Company had 2,557,498,500 ordinary shares of HK\$0.10 each in issue.

Gearing Ratio

As at 30 June 2013, the total assets value of the Group was HK\$3,012.6 million (31 December 2012: HK\$3,463.3 million) and the bank borrowings was HK\$230.9 million (31 December 2012: HK\$50.8 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 7.7% (31 December 2012: 1.5%). All such bank borrowings are repayable within one year and bear interest at fixed rates ranging from 1.3% to 3.3%.

CONTINGENT LIABILITIES

As at 30 June 2013, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2013, the Group had approximately 2,860 (31 December 2012: 3,200) 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 1H-2013, 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 the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for 1H-2013.

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 28 May 2013 ("2013 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 2013 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 2013 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 (“Model Code”) as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors 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 1H-2013.

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 2013. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2013 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.

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 2013 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 are Ms Yeung Man Ying, Mr Wong Cho Tung, Mr Zhang Jianping, Ms Tang Rongrong, Mr Chan Tat Wing, Richard and Mr Liu Hong, and the independent non-executive Directors 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 “intend”, “expect”, “anticipate”, “estimate”, “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 Company operates, and are subject to risks, uncertainties and other factors that could significantly affect expected results.

Hong Kong, 30 August 2013

* *For identification purposes only*