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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 2014

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 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

		Six months ended 30 June	
		2014	2013
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	925,372	786,605
Cost of sales		(797,488)	(711,882)
Gross profit		127,884	74,723
Other income	5	34,627	29,080
Other gains and losses	5	5,432	(16,430)
Research and development expenses		(72,119)	(109,190)
Selling and distribution costs		(38,696)	(43,918)
Administrative expenses		(41,357)	(54,975)
Share of results of an associate		-	158
Finance costs		(2,728)	(685)
Profit (Loss) before taxation		13,043	(121,237)
Taxation charge	6	(2,871)	(4,966)
Profit (Loss) for the period	7	10,172	(126,203)
Profit (Loss) for the period attributable to:			
Owners of the Company		4,977	(125,957)
Non-controlling interests		5,195	(246)
		10,172	(126,203)
Earnings (Loss) per share (HK cents)	9		
Basic		0.2	(5.0)
Diluted		0.2	(5.0)

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

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (Loss) for the period	<u>10,172</u>	<u>(126,203)</u>
Other comprehensive (expense) income for the period		
Items that may not be subsequently reclassified to profit or loss for the period:		
Exchange difference arising on translation to presentation currency	(25,338)	13,304
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	<u>—</u>	<u>(2,758)</u>
	<u>(25,338)</u>	<u>21,577</u>
Total comprehensive expense for the period	<u>(15,166)</u>	<u>(104,626)</u>
Total comprehensive (expense) income attributable to:		
Owners of the Company	(18,592)	(105,453)
Non-controlling interests	<u>3,426</u>	<u>827</u>
	<u>(15,166)</u>	<u>(104,626)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
	<i>Notes</i>		
Non-current assets			
Investment properties		314,263	319,066
Property, plant and equipment		490,019	542,478
Land use rights		105,985	93,972
Intangible assets		71,725	48,281
Interest in an associate		-	28,967
Deferred tax assets		47,427	49,344
Finance lease receivables		5,118	-
Entrusted loan receivables		75,000	125,900
Deposits paid for acquisition of land use rights		-	16,065
Available-for-sale investments		16,875	16,875
		1,126,412	1,240,948
Current assets			
Inventories		288,082	196,806
Finance lease receivables		2,162	-
Properties under development for sales		525,797	483,710
Properties held for sale		15,367	22,932
Trade and notes receivables	10	390,872	228,356
Other receivables, deposits and prepayments		249,829	317,652
Entrusted loan receivables		87,500	-
Pledged bank deposits		98,604	80,776
Structured deposit		-	32,000
Bank balances and cash		210,315	255,440
		1,868,528	1,617,672
Asset classified as held for sale		28,967	-
		1,897,495	1,617,672
Current liabilities			
Trade and notes payables	11	391,671	321,937
Other payables, deposits received and accruals		220,071	250,703
Amount due to a non-controlling shareholder of a subsidiary		35,000	30,720
Bank borrowings		320,331	191,804
Tax payable		1,326	1,504
		968,399	796,668
Liability associated with asset classified as held for sale		13,063	-
		981,462	796,668
Net current assets		916,033	821,004
Total assets less current liabilities		2,042,445	2,061,952

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Capital and reserves		
Share capital	255,750	255,750
Reserves	1,608,544	1,625,197
Equity attributable to owners of the Company	1,864,294	1,880,947
Non-controlling interests	81,527	78,101
Total equity	1,945,821	1,959,048
Non-current liabilities		
Deferred tax liabilities	51,527	54,404
Deferred income	45,097	48,500
	96,624	102,904
	2,042,445	2,061,952

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 functional currency of the Company is Renminbi (“RMB”). 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 on The Stock Exchange of Hong Kong Limited and for the convenience of the shareholders.

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, wireless communication modules, carrying out internet of things business and property development in the People’s Republic of China (“PRC”).

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values, as explained in the accounting policies of the Group. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

2. Application of new and revised International Financial Reporting Standards (“IFRSs”)

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to International Financial Reporting Standards (“IFRSs”) issued by IASB that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC – Int 21	Levies

Amendments to IAS 36 Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (“CGU”) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 “Fair Value Measurements”.

With the application of the amendments, the recoverable amounts of display modules CGU had not been disclosed in the condensed consolidated financial statements.

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

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 on which the consolidated financial statements for the year ended 31 December 2013 were authorised for issuance and are not yet effective:

Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
IFRS 15	Revenue from contracts with customers ²

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

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 and income from equipment financial leasing.

4. Segment information

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

In the six months ended 30 June 2013, the Group was organised into four reportable and operating segments-sale of handsets and solutions, sale of display modules, sale of wireless communication modules and property development. In the current interim period, the Group started internet of things business. The new operation aims to provide customers from specific vertical industries with total system solutions encompassing backend software and terminal systems. The executive Directors considered this is a separate reportable and operating segment to the Group.

Segment revenue and results

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

For the six months ended 30 June 2014

(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>	Internet of things business <i>HK\$'000</i> <i>(Note)</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	618,291	14,438	228,233	6,938	57,472	925,372	–	925,372
Inter-segment sales	–	345	–	–	–	345	(345)	–
Total	<u>618,291</u>	<u>14,783</u>	<u>228,233</u>	<u>6,938</u>	<u>57,472</u>	<u>925,717</u>	<u>(345)</u>	<u>925,372</u>
Segment profit (loss)	<u>9,440</u>	<u>(16,431)</u>	<u>4,790</u>	<u>137</u>	<u>7,612</u>	<u>5,548</u>	<u>–</u>	<u>5,548</u>
Other income and other gains and losses								21,495
Corporate expenses								(11,272)
Finance costs								(2,728)
Profit before taxation								<u>13,043</u>

For the 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 and other 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>

Inter-segment sales are charged at mutually agreed terms.

Note: The internet of things business is still in the developing stage in the current interim period. Revenue represents the income from equipment financial leasing and sale of goods to vending machine customers and franchisees.

Segment result represents the financial result by each segment without allocation of rental income, interest income, certain 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.

5. Other income / Other gains and losses

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<u>Other income</u>		
Refund of VAT (<i>Note</i>)	2,054	3,504
Government grants	12,677	14,181
Interest income earned on bank balances and structured deposit	2,045	1,345
Interest income earned on entrusted loan receivables	5,438	–
Rental income (Less: outgoings of HK\$145,000 (2013: HK\$145,000))	11,372	9,598
Others	1,041	452
	34,627	29,080
<u>Other gains and losses</u>		
Gain (Loss) on disposal of property, plant and equipment	978	(133)
Net foreign exchange gain	1,779	13,855
Changes in fair value of investment properties	2,675	–
Allowance for bad and doubtful debts	–	(12,250)
Impairment loss recognised in respect of intangible assets	–	(5,643)
Impairment loss recognised in respect of property, plant and equipment	–	(12,259)
	5,432	(16,430)

Note:

Shanghai Simcom Limited and Shanghai Simcom Wireless Solutions Limited, both 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, they are entitled to a refund of Value Added Tax (“VAT”) paid for sales of self-developed and produced software in the PRC.

6. Taxation charge

Six months ended 30 June	
2014	2013
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Tax charge comprises:

PRC Enterprise Income Tax	(4,004)	(4,528)
PRC Land Appreciation Tax ("LAT")	(940)	(1,073)
Over(Under)provision on PRC Enterprise Income Tax in previous years	1,260	(4,620)
Deferred tax credit	813	5,255
	<u>(2,871)</u>	<u>(4,966)</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 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% (six months period ended 30 June 2013: 30% to 60%) of the appreciation value, with certain allowable deductions.

7. Profit (Loss) for the period

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (Loss) for the period is arrived at after charging:		
Amortisation of intangible assets (included in cost of sales)	37,481	65,201
Less: Amount capitalised in development costs classified as intangible assets	(496)	(1,206)
	<u>36,985</u>	<u>63,995</u>
Amortisation of land use rights	1,473	1,473
Depreciation of property, plant and equipment	42,984	46,599
Less: Amount capitalised in development costs classified as intangible assets	(1,104)	(1,415)
	<u>41,880</u>	<u>45,184</u>
Staff costs including directors' emoluments	129,582	159,568
Share-based payments	1,939	2,135
Less: Amount capitalised in development costs classified as intangible assets	(35,308)	(33,238)
	<u>96,213</u>	<u>128,465</u>
Operating lease rentals in respect of land and buildings	3,378	4,079
Less: Amount capitalised in development costs classified as intangible assets	(557)	(282)
	<u>2,821</u>	<u>3,797</u>
Write-down of inventories (included in cost of sales)	—	4,998
Cost of inventories recognised as expense (included in cost of sales)	731,343	642,715
Cost of properties sold (included in cost of sales)	<u>41,702</u>	<u>55,458</u>

8. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 and 2013.

9. Earnings (Loss) per share

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings (Loss)		
Earnings (Loss) for the purposes of basic and diluted earnings (loss)		
per share (profit (loss) for the period attributable to the owners of the Company)	4,977	(125,957)
	'000 shares	'000 shares
Number of shares		
Weighted average number of ordinary shares for the purpose of		
basic earnings per share (2013: basic and diluted loss per share)	2,543,369	2,543,369
Effect of dilutive potential ordinary shares – share options	290	N/A
Weighted average number of ordinary shares for the purpose		
of diluted earnings per share	2,543,659	2,543,369

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

10. Trade and notes receivables

The normal credit period taken on sales of goods is 0-90 days.

The following is an aged analysis of trade and notes receivable presented based on the invoice date at the end of the reporting period:

	As at 30 June 2014 HK\$'000 (unaudited)	As at 31 December 2013 HK\$'000 (audited)
Trade receivables		
0 – 30 days	268,162	198,543
31 – 60 days	101,763	13,377
61 – 90 days	3,668	1,392
91 – 180 days	11,246	1,582
Over 180 days	32,437	33,589
	417,276	248,483
Less: Accumulated allowances	(31,704)	(32,465)
	385,572	216,018
Notes receivables (Note)		
0 – 30 days	5,300	12,338
	5,300	12,338
	390,872	228,356

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

11. Trade and notes payables

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

	As at 30 June 2014 HK\$'000 (unaudited)	As at 31 December 2013 HK\$'000 (audited)
0 – 30 days	351,948	298,098
31 – 60 days	21,553	6,660
61 – 90 days	873	422
Over 90 days	17,297	16,757
	391,671	321,937

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 2014.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back at the year 2013, the Group has passed through the most challenging time in its history. The Group has formulated and implemented a strategy of “focusing on the high-end ODM handset business and pursuing expansion into new business areas”. The Group has adhered to a “high value-added” business direction and has subsequently withdrawn from the low-end ODM consumer handset business, which had targeted the telecom service operator procurement market. At the same time, it has accelerated the development of high-end products as well as its attention to targeting high-end markets and customers, including exploring business opportunities with international brands for consumer handsets.

In the first half of 2014, the Group seized the opportunities presented by the transition of the handset industry from 3G to 4G to promote the Group’s new self-developed products to domestic and overseas quality customers. Thanks to the strong R&D capability of the Group and the diligence and dedication of its staff, the strategic initiative has begun to yield results. During the period under review, the Group has completed the mass production and delivery of several high-end ODM projects for international customers. Despite being affected by a serious quality issue in some key materials, which had rarely occurred previously, the handsets and solutions business of the Group still recorded greater growth due to these projects.

Driven by stronger demands for the Group’s 3G/4G new products in overseas markets, the revenue of the wireless communication modules business has steadily increased. Moreover, the Group has made significant progress in the development of new businesses such as the Internet of Things (IOT) terminals and backend software application systems. While most of the new businesses have yet to contribute to the Group’s business results, those businesses with a well-defined profitability model and potentials for replication have solidified the foundation of the Group for sustainable growth in its business results.

Summarizing the above factors, the Group achieved a turnaround to a profit in its overall business during the first half of 2014.

Handsets and solutions

In the first half of 2014, the Group has continued to adhere to its strategy of focusing on the quality ODM handset business and completed large-scale production and delivery of high-end ODM consumer handset consignments for several international and domestic customers (including Acer, Vestel and 壹人壹本). Consequently, the Group’s handsets business has advanced out of the loss making condition which lasted in the past two years. While the Group missed the opportunity to create an even greater gross profit improvement owing to aberrant and serious material quality issues in the first half of 2014, the

Group's handsets and solutions business nonetheless achieved a remarkable performance and recorded substantial growth. Overall delivery volume of the handsets declined as compared to the same period last year, but both sales and gross profit of the handsets and solutions business recorded a year-on-year increase. Such increase was mainly attributable to a year-on-year rise in the sales volume of high-end consumer handsets and industrial application terminals during the year in contrast to a greater sales volume of low margin products to domestic operators in the same period last year.

With the advent of the 4G LTE era, the Group started boosting its investment in the R&D of 4G solutions last year. Currently, more than 80% of its R&D resources were allocated to the development of 4G handsets and terminals. The Group will commence mass production of more than 10 models of 4G terminals in the second half of the year. Thus the Group has moved to the forefront of the industry in 4G development and product planning. Leveraging its first-mover advantage in 4G solutions, the Group will quickly expand its domestic and overseas customer base to provide ODM services to more quality customers while reaping the results derived from the growth of the 4G market with its clients.

Benefitting from the demand trends of the IOT and the mobile office, the industry mobile terminal market is expected to grow steadily in the long run. In particular, due to the rising concern about information security, the government authorities, state-owned companies and larger private companies have gradually shifted to choosing domestic suppliers and brands. Meanwhile, due to the increasing potential threat from terrorism, the demand for equipment designed for police and security applications is expected to see stable growth in the short to medium term. Moreover, the demand for terminals has shown notable growth in the mobile payment and mobile POS industries in recent years. To tap the opportunity presented by these developments, in the first half of 2014, the Group has cooperated with a branded company in the United States of America ("US") to produce waterproof, dust-proof and shock resistant mobile terminals with an anti-explosion feature. The new product is expected to be delivered to telecom operators in North America such as AT&T, Bell and Telas in the second half of 2014. Besides, the Group is developing new products based on the handset version of another large telecom operator in the US, which are expected to be delivered in the first half of 2015. Meanwhile, the Group's own branded mobile terminal products specially designed for use in logistics, finance and medical care industries have gained traction in those market sectors. The Group is sparing no effort to locate more quality customers both domestically and overseas, thereby laying a strong foundation for its business development in the second half of the year and next year.

Wireless communication modules

For the first half of 2014, the Group recorded growth in the overall delivery volume and revenue of the wireless communication modules business. The growth was attributable to increase in demands of the domestic and overseas markets in a different degree. The relatively higher delivery volume of 2G products in China and Europe, along with faster growth in delivery volume of high value 3G products in North America and Japan have boosted the overall sales of this business. In face of the intense price competition in the traditional 2G product segment, the Group has added a new platform to its existing 2G product platform to cater for the customers' demand for solutions targeted at more sub-market segments. The new platform has been rolled out to both domestic and overseas markets. At the 3G/4G platform level, the Group has enriched its product range, which enabled it to widen the gap with its peers and meet the rising demand for 3G/4G LTE solutions in the overseas market, thereby gaining the

recognition and confidence of overseas operators and top-tier customers in the Group's brand (SIMCom). For the solutions which are operator-oriented, the Group has continued to strengthen cooperation through customised projects with overseas operators and brands such as AT&T, SOFTBANK, Coyote and Panasonic. In domestic markets, the modules and terminals used by China Mobile for optimising networks and on-site testing of 4G networks in 2014 were mostly provided by the Group.

Display and touch panel modules

Since 2013, the higher-than-expected drop in the price of touch panel module products along with the dramatic change in the technology of touch panels have resulted in a substantial loss in the business. Therefore, the Group has decided to reduce the operation scale at the end of 2013. In the first half of this year, the Group has cleared the slow moving materials and equipment production lines for display and touch panel modules. The Group expects to finish the clearance of materials in inventory and equipment by the end of the year. As the Group has placed great emphasis on developing high-end consumer and industry ODM businesses, it has begun to procure display and touch panel module products from external suppliers to meet the internal demand of the Group.

Internet of Things (IOT) business

As for the high-end ODM handset business, the Group is actively developing new strategies and has actually begun implementation as it develops business in this segment. The Group is leveraging its industry-leading technologies in big data, cloud computing, mobile internet and IOT to develop a cloud computing and big data service platform to address the healthcare needs for the elderly living alone. The platform can be used in smart homes, community property management, interaction between primary school students and their parents, families and schools. Besides, the Group aims to revamp traditional vending machines into one-stop multi-functional devices that provide various convenient services such as product selling, advertisements, logistics, e-commerce, financial services and web-surfing. The "intelligence" of these machines beyond the so-called "smart terminal" offers new hope for the industry, and has bright prospects. Currently, more than 20 franchisees have signed agreements for cooperation which cover more than 3,000 vending machines, of which 1,300 are under financial leasing. The management expects these numbers to grow further by the end of this year and its aim is to become the leader in the industry next year.

Production and manufacturing

Starting from 2014, the Group's manufacturing department has begun to take external production orders. In 1H-2014, this external production orders recorded revenue of HK\$11.1 million, with a manufacturing cost of HK\$9.1 million (excluding the cost of mobile handsets of the Group undertaken by the manufacturing department).

Despite the rising labour cost, the Group has insisted on standard production operations which places it at a disadvantage in a labour intensive industry. Therefore, since 2014, the Group has decided to revamp the areas with significant manpower requirements in the handset production lines, starting from the

automation of PCBA examination after SMT procedure. At the beginning of this year, the Group revised and optimised the solution for automation of production lines over a half-year period and has extended automation elsewhere in the handset production process.

The Group believes that it is inevitable for the manufacturing industry to increase the scope of automation and artificial intelligence in China. In the future, the Group hopes to replicate its own successful experience for other players in the handset manufacturing industry, assist the industry peers to realise the automated and intelligent production lines transformation and turn it into one of the core businesses of the Group.

Property development

Shenyang City

As at 30 June 2014, Phase I of “The Riverside Country” (晨興•翰林水郡), which is located in Shenyang City, PRC, has a total of 404 residential units, of which 383 units had been sold while in the completed sections of Phases II and III, 490 and 6 units were also sold respectively. The sales recognised in the first half of 2014 amounted to HK\$57.5 million (2013: HK\$71.6 million) and the gross profit margin was 27.4% (2013: 24.0%).

Taizhou City

The Group intends to develop a land parcel in Taizhou City, PRC into an “intelligent residential district” with the project designated an “IOT and New Generation Energy Model Residential Area.” As at the date of this announcement, approximately 80% of the construction in Phase I has been completed and is expected to be on sale in the market in the second half of 2014.

PROSPECTS

Mobile phones are no longer purely a communication tool in the contemporary society but has become a necessary portable “smart” device for daily life and work. New technologies and functions are developed continuously with rapid frequency. Therefore, the Group believes that its positioning in the high-end ODM consumer business will enjoy more business opportunities and greater scope for development in the future. In view of the rapid uptake of 4G technology around the world, in particular the tremendous growth of 4G networks in China, North America and Japan, is expected to generate revenue for the Group in the future. Therefore, the management believes that the consumer handset and industrial application ODM businesses will remain as the major profit drivers for the Group in the next two years.

In wireless communication modules, the Group is continuing to expand its market share in China and overseas. Capitalising on its 2G/3G cost advantage, it has developed diverse product ranges covering AMI, telematics and mobile payment sectors in an effort to maximise its market share in China. For overseas business, the Group will launch its 3G/4G new products and work with overseas operators on customised projects. The Group believes that the shipment volume, sales amount and profit will deliver notable growth in the second half of this year and next year.

Regarding the IOT business, the Group will accelerate its contribution in value-added services for the emerging intelligent vending machine industry, so as to expand the scale of business related to this sector and generate more profit, as well as adopt a franchise business model to swiftly expand its scope of business. On top of this, the Group will continue to develop and engage in incorporating artificial intelligence elements into residential and commercial properties, as well as the IOT projects relating to the elderly, transportation and education aspects.

The management is confident that its high-end handset and industrial application ODM businesses will deliver strong growth momentum. As it expands its scope of business, this momentum together with the growth driver created by the new businesses positions would enable the Group to continuously and steadily grow in the coming years.

FINANCIAL REVIEW

For the six months ended 30 June 2014 (“1H-2014”), the revenue of the Group was HK\$925.4 million (2013: HK\$786.6 million), in which the revenue from sale of handsets and solutions, wireless modules, display modules and internet of things business (“core business”) increased significantly by 21.4% to HK\$867.9 million (2013: 715.0 million) as compared with that of the first half of 2013 (“1H-2013”). The increase in the revenue of core business was mainly attributable to the significant increase in the revenue of handsets and solutions business in 1H-2014. The revenue from the sale of residential units in Shenyang, PRC was HK\$57.5 million (2013: HK\$71.6 million) in 1H-2014.

The gross profit for 1H-2014 for core business of the Group increased substantially year-on-year by 94.8% to HK\$112.1 million (2013: HK\$57.6 million). The gross profit margin for core business increased to 12.9% (2013: 8.1%). The increase was mainly attributable to the rise in the sales volume of high-end consumer handsets and industrial application terminals in 1H-2014, which were with higher gross profit margin. The overall gross profit margin of the Group for 1H-2014 was 13.8% (2013: 9.5%).

As a result of the increase in revenue and the reduction in overall operating expenses in 1H-2014, the Group achieved a turnaround to a profit attributable to owners of the Company of HK\$5.0 million (2013: loss of HK\$126.0 million). The basic earnings per share for 1H-2014 was HK0.2 cents (2013: loss per share of HK5.0 cents).

Segment results of core business

	Six months ended 30 June 2014			Six months ended 30 June 2013		
	Revenue	Gross profit/(loss)	Gross profit/(loss) margin	Revenue	Gross profit	Gross profit margin
	HK\$'M	HK\$'M	%	HK\$'M	HK\$'M	%
Handsets and solutions	618	82	13.4%	408	23	5.6%
Wireless communication modules	228	34	15.0%	217	34	15.5%
Display modules	15	(5)	(33.6%)	90	1	1.3%
Internet of things business	7	1	4.2%	—	—	—
Total	868	112	12.9%	715	58	8.1%

Handsets and solutions

During 1H-2014, the Group completed large-scale production and delivery of high-end ODM handset consignments for several international and domestic customers. As a result, the revenue for handsets and solutions increased significantly year-on-year by 51.5% to HK\$618.3 million (2013: HK\$408.1 million). In addition, the sales proportion of high-end consumer handsets and industrial application terminals increased substantially, which were with higher gross profit margin, as compared to the sale of low margin products to domestic operators in 1H-2013, hence the gross profit margin for this segment increased to 13.4% (2013: 5.6%) in 1H-2014. The revenue of ODM business contributed to approximately 81% of the revenue of this segment in 1H-2014 (2013: 53%).

Wireless communication modules

The revenue for wireless communication modules in 1H-2014 increased by 5.0% as compared to that of 1H-2013, while the gross profit margin maintained at 15.0% (2013: 15.5%). This was attributable to an increase in demand in wireless communication modules of the domestic and overseas markets. The relatively higher delivery volume of 2G products in China and Europe, along with faster growth in delivery volume of high value 3G products in North America and Japan have boosted the overall sales of this segment in 1H-2014.

Display modules

The Group has decided to reduce the operation scale of the display modules business at the end of 2013. In 1H-2014, the Group has cleared the slow moving materials for display and touch panel modules. As a result, the revenue for this segment in 1H-2014 decreased significantly as compared to 1H-2013 and incurred a gross loss for 1H-2014.

Internet of things business

The revenue of this new business segment amounted to HK\$6.9 million in 1H-2014 and the gross profit margin was 4.2%. In 1H-2014, more than 20 franchisees have signed agreements for cooperation which cover more than 3,000 vending machines, of which 1,300 are under financial leasing.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

At 30 June 2014, the Group had bank balances and cash of HK\$210.3 million (31 December 2013: HK\$255.4 million), among of which 63.5% was held in Renminbi, 35.7% was held in US dollars and the remaining balance was held in Hong Kong dollars. The Group also had pledged bank deposits of HK\$98.6 million (31 December 2013: HK\$80.8 million) in Renminbi for the purpose of the Group's US dollars borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including bank deposits, property, plant and equipment, notes receivables and land use rights) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$320.3 million (31 December 2013: HK\$191.8 million), all of which were denominated in US dollars and at floating interest rates.

Operating Efficiency

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

	30 June 2014	31 December 2013
	<i>Days</i>	<i>Days</i>
Inventory turnover period	58	59
Trade receivables period	63	66
Notes receivables period	2	10
Trade and notes payables period	77	93

To secure the procurement by the Group, the deposit paid to suppliers in 1H-2014 had been increased. As a result, the turnover period of the trade and notes payables decreased in 1H-2014.

As at 30 June 2014, the current ratio, calculated as current assets over current liabilities, was 1.9 times (31 December 2013: 2.0 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. As at 30 June 2014, the Group has entrusted a total amount of HK\$162.5 million under certain asset management agreements for an investment period from six months to two years. During 1H-2014, 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.

As at 30 June 2014, the Company had 2,557,498,500 ordinary shares of HK\$0.10 each in issue.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2014 and 1H-2013:

	1H-2014 HK\$' million	1H-2013 HK\$' million
Net cash used in operating activities	(102.3)	(131.4)
Capital expenditure	(11.2)	(55.7)
Development costs	(62.1)	(45.7)
Net increase in bank borrowings	128.5	180.2
Investment in an associate	—	(30.0)
Deposits received for disposal of an associate	13.1	—
Investment in entrusted loan receivables	(37.5)	(50.6)
Others	12.2	(0.6)
Net decrease in cash and cash equivalents (including pledged bank deposits and structured deposit)	(59.3)	(132.6)

GEARING RATIO

As at 30 June 2014, the total assets value of the Group was HK\$3,023.9 million (31 December 2013: HK\$2,858.6 million) and the bank borrowings was HK\$320.3 million (31 December 2013: HK\$191.8 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 10.6% (31 December 2013: 6.7%).

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2014, the Group had approximately 2,560 (31 December 2013: 2,500) 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 LISTED SHARES OF THE COMPANY

During 1H-2014, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for 1H-2014.

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 30 May 2014 ("2014 AGM"), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to an unexpected business engagement. Mr Chan Tat Wing, Richard, an executive Director and the chief finance officer of the Group, chaired the 2014 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 2014 AGM to answer questions from Shareholders.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that they have fully complied with the required standard as set out in the Model Code for 1H-2014.

AUDIT COMMITTEE

The audit committee of the Board (“Audit Committee”) has reviewed with the 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 2014. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2014 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 has been published on the respective websites of the Company (www.sim.com) and the Stock Exchange (www.hkexnews.hk). The 2014 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”, “is confident”, and similar expressions are intended to identify forward-looking statements. These statements are not historical facts or guarantees of future performance. Actual results could differ materially from those expressed, implied or forecasted in such forward-looking statements. Such forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of the Company about the business, the industry and the market in which the Group operates, and are subject to risks, uncertainties and other factors that could significantly affect expected results.

Hong Kong, 28 August 2014

* *For identification purposes only*