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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (“Board”) of directors (“Directors”) of SIM Technology Group Limited (“Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (“Group”) for the year ended 31 December 2016 (“Year”) together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2016	2015
	Notes	HK\$'000	HK\$'000
		Audited	Audited
Revenue	3	2,724,390	3,197,289
Cost of sales		(2,322,609)	(2,771,526)
Gross profit		401,781	425,763
Other income	5	71,002	94,858
Other gains and losses	6	(1,306)	(35,271)
Research and development expenses		(102,196)	(148,866)
Selling and distribution costs		(135,938)	(128,313)
Administrative expenses		(125,170)	(102,879)
Share of results of associates		(1,533)	(1,261)
Finance costs	7	(10,140)	(14,381)
Profit before taxation		96,500	89,650
Taxation	8	(22,067)	(19,775)
Profit for the year	9	74,433	69,875
Profit for the year attributable to:			
Owners of the Company		77,278	64,645
Non-controlling interests		(2,845)	5,230
		74,433	69,875
Earnings per share (HK cents)	11		
Basic		3.02	2.53
Diluted		3.02	2.51

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Audited
Profit for the year	<u>74,433</u>	<u>69,875</u>
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss during the year:		
Fair value change on available-for-sale investment	170,573	—
Deferred tax arising from fair value change on available-for-sale investment	(42,643)	—
Item that may not be subsequently reclassified to profit or loss during the year:		
Exchange difference arising on translation to presentation currency	<u>(80,699)</u>	<u>(91,113)</u>
Other comprehensive income (expense)	<u>47,231</u>	<u>(91,113)</u>
Total comprehensive income (expense) for the year	<u>121,664</u>	<u>(21,238)</u>
Total comprehensive income (expense) attributable to:		
Owners of the Company	128,063	(19,277)
Non-controlling interests	<u>(6,399)</u>	<u>(1,961)</u>
	<u>121,664</u>	<u>(21,238)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK\$'000 Audited	2015 HK\$'000 Audited
Non-current assets			
Investment properties		350,779	355,981
Property, plant and equipment		376,914	405,976
Land use rights		84,185	91,605
Intangible assets		148,405	117,017
Deferred tax assets		43,719	45,487
Finance lease receivables		637	3,184
Entrusted loan receivables		–	47,360
Interest in associates		3,800	5,333
Available-for-sale investments		187,448	16,875
Consideration receivable		1,621	1,806
		1,197,508	1,090,624
Current assets			
Inventories		737,417	668,271
Finance lease receivables		6,085	9,954
Properties under development for sale		359,130	227,010
Properties held for sale		167,355	340,681
Trade and notes receivables	12	258,321	292,356
Other receivables, deposits and prepayments		275,090	254,709
Consideration receivable		676	754
Amount due from an associate		2,000	–
Amounts due from non-controlling shareholders of subsidiaries		11,633	8,504
Entrusted loan receivables		112,700	74,592
Pledged bank deposits		76,636	102,864
Bank balances and cash		249,132	298,386
		2,256,175	2,278,081
Asset classified as held for sale		26,117	27,384
		2,282,292	2,305,465
Current liabilities			
Trade and notes payables	13	374,218	628,401
Other payables, deposits received and accruals		423,995	236,260
Amounts due to non-controlling shareholders of subsidiaries		35,613	46,911
Amount due to an associate		–	3,501
Bank borrowings		299,991	333,520
Tax payable		23,138	8,229
		1,156,955	1,256,822
Liability associated with asset classified as held for sale		24,794	24,805
		1,181,749	1,281,627
Net current assets		1,100,543	1,023,838
Total assets less current liabilities		2,298,051	2,114,462

	2016 <i>HK\$'000</i> Audited	2015 <i>HK\$'000</i> Audited
Capital and reserves		
Share capital	255,790	255,790
Reserves	1,770,956	1,639,989
Equity attributable to owners of the Company	2,026,746	1,895,779
Non-controlling interests	105,801	102,605
Total equity	2,132,547	1,998,384
Non-current liabilities		
Deferred tax liabilities	111,638	63,528
Deferred income	53,866	52,550
	165,504	116,078
	2,298,051	2,114,462

NOTES TO THE 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 consolidated financial statements are presented in Hong Kong dollars (“HK\$”), as the Directors consider that it is a more appropriate presentation for a company listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and for the convenience of the shareholders.

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

The 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 on the Stock Exchange (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments that are measured at fair values at the end of each reporting periods. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs for the first time in the current year:

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

New and amendments to IFRSs in issue but not effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial instruments ¹
IFRS 15	Revenue from contracts with customers and the related amendments ¹
IFRS 16	Leases ²
Amendments to IFRS 2	Classification and measurement of share-based payment transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts ¹
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from contracts with customers ¹
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to IAS 7	Disclosure initiative ⁴
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses ⁴
Amendments to IFRSs	Annual improvements to IFRSs 2014-2016 cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

IFRS 9 “Financial instruments”

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 relevant to the Group are described below:

- All recognised financial assets that are within the scope of IAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of IFRS 9 in the future may have material impact on the classification and measurement of the Group's financial assets. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect of IFRS 9 until the Group performs a detailed review.

IFRS 15 “Revenue from contracts with customers”

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction contracts” and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported (e.g. recognition of bulk discount/rebates, sales return) as the timing of revenue recognition may be affected/and the amounts of revenue recognised are subject to variable consideration constraints. The Directors also consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

IFRS 16 “Leases”

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 “Leases” and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lease accounting, and is replaced a single model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitment of HK\$10,798,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company performs a detailed review.

Amendments to IFRS 10 and IAS 28 “Sale or contribution of assets between an investor and its associate or joint venture”

The amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The Directors anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group’s consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 7 “Disclosure initiative”

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The Directors anticipate that the application of the other new and amendments to IFRSs will have no material impact on the Group’s consolidated financial statements.

3. Revenue

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

4. Segment information

Information reported to the executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

During the year ended 31 December 2015, the Group was organised into six reportable and operating segments, being sale of handsets, solutions and intelligent terminals, sale of display modules, sale of wireless communication modules, internet of things business, intelligent manufacturing business and property development. During the year ended 31 December 2016, the Group has ceased the sale of display modules in order to reallocate resources to other profitable business.

These reportable and operating segments are the basis of the internal reports about components of the Group that are regularly reviewed by the executive Directors in order to allocate resources to segments and to assess their performance.

Segment revenue and results

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

For the year ended 31 December 2016

	Sale of handsets, solutions and intelligent terminals <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i> <i>(Note)</i>	Intelligent manufacturing business <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue						
External sales	<u>1,271,117</u>	<u>815,016</u>	<u>302,354</u>	<u>143,454</u>	<u>192,449</u>	<u>2,724,390</u>
Segment profit	<u>22,831</u>	<u>63,974</u>	<u>13</u>	<u>6,283</u>	<u>3,678</u>	<u>96,779</u>
Other income and other gains and losses						39,815
Share of results of associates						(1,533)
Corporate expenses						(28,421)
Finance costs						(10,140)
Profit before taxation						<u>96,500</u>

For the year ended 31 December 2015

	Sale of handsets, solutions and intelligent terminals <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i> <i>(Note)</i>	Intelligent manufacturing business <i>HK\$'000</i>	Sale of display modules <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue							
External sales	<u>2,043,240</u>	<u>638,847</u>	<u>272,990</u>	<u>80,301</u>	<u>–</u>	<u>161,911</u>	<u>3,197,289</u>
Segment profit (loss)	<u>17,762</u>	<u>58,567</u>	<u>157</u>	<u>10,353</u>	<u>(5,031)</u>	<u>8,678</u>	<u>90,486</u>
Other income and other gains and losses							36,820
Share of results of associates							(1,261)
Corporate expenses							(22,014)
Finance costs							(14,381)
Profit before taxation							<u>89,650</u>

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

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment result represents the profit earned or loss incurred by each segment without allocation of gain from changes in fair values of investment properties, rental income, interest income, gain on disposal of a subsidiary, unallocated exchange loss, gain or loss on disposal of property, plant and equipment, corporate expenses, share of results of associates, finance costs and taxation. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment.

Inter-segment sales were charged at mutually agreed terms.

Segment assets and liabilities

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

At 31 December 2016

	Sale of handsets, solutions and intelligent terminals <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	859,359	494,816	185,400	232,582	597,743	2,369,900
Investment properties						350,779
Property, plant and equipment						25,563
Land use rights						15,560
Deferred tax assets						43,719
Entrusted loan receivables						112,700
Interests in associates						3,800
Available-for-sale investment						187,448
Consideration receivable						2,297
Amounts due from non-controlling shareholders of subsidiaries						11,633
Amount due from an associate						2,000
Other receivables, deposits and prepayments						2,516
Pledged bank deposits						76,636
Bank balances and cash						249,132
Asset classified as held for sale						26,117
Consolidated assets						<u><u>3,479,800</u></u>
Segment liabilities	384,528	111,910	11,011	67,822	299,548	874,819
Other payables, deposits received and accruals						12,873
Bank borrowings						299,991
Tax payable						23,138
Deferred tax liabilities						111,638
Liability associated with asset classified as held for sale						24,794
Consolidated liabilities						<u><u>1,347,253</u></u>

	Sale of handsets, solutions and intelligent terminals <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Sale of display modules <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	1,057,811	348,219	211,472	135,349	–	602,675	2,355,526
Investment properties							355,981
Property, plant and equipment							28,615
Land use rights							16,768
Deferred tax assets							45,487
Entrusted loan receivables							121,952
Interests in associates							5,333
Available-for-sale investments							16,875
Consideration receivable							2,560
Amounts due from non-controlling shareholders of subsidiaries							8,504
Other receivables, deposits and prepayments							9,854
Pledged bank deposits							102,864
Bank balances and cash							298,386
Asset classified as held for sale							27,384
Consolidated assets							<u>3,396,089</u>
Segment liabilities	670,825	65,679	12,673	49,914	–	132,627	931,718
Other payables, deposits received and accruals							17,808
Amounts due to non-controlling shareholders of subsidiaries and an associate							18,097
Bank borrowings							333,520
Tax payable							8,229
Deferred tax liabilities							63,528
Liability associated with asset classified as held for sale							24,805
Consolidated liabilities							<u>1,397,705</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, certain land use rights, pledged bank deposits, bank balances and cash, entrusted loan receivables, interests in associates, available-for-sale investment, consideration receivable, deferred tax assets, certain other receivables, deposits and prepayments, amounts due from non-controlling shareholders of subsidiaries and an associate and asset classified as held for sale. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments; and

- other than liabilities specifically identified for reportable and operating segments on sale of display modules, internet of things business, intelligent manufacturing business and property development, the remaining liabilities are allocated between payables jointly consumed by reportable and operating segments on sale of handsets, solutions and intelligent terminals and sale of wireless communication modules and corporate liabilities. Corporate liabilities include certain other payables, deposits received and accruals, tax payable, unallocated amounts due to non-controlling shareholders of subsidiaries and amount due to an associate, bank borrowings, deferred tax liabilities and liability associated with asset classified as held for sale.

Other segment information

For the year ended 31 December 2016

	Sale of handsets, solutions and intelligent terminals <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:							
Additions of property, plant and equipment	11,440	10,003	3,161	34,386	7	–	58,997
Additions of intangible assets	118,053	39,411	3,317	33,704	–	–	194,485
Depreciation of property, plant and equipment	44,511	8,890	4,834	8,091	329	1,740	68,395
Amortisation of intangible assets	95,864	35,007	1,112	24,199	–	–	156,182
Amortisation of land use rights	1,738	454	117	390	–	415	3,114
Reversal of allowance for bad and doubtful debts	(3,324)	–	–	–	–	–	(3,324)
Reversal of impairment loss recognised in respect of property, plant and equipment	(6,304)	–	–	–	–	–	(6,304)
Reversal of allowance of inventories	(2,898)	–	–	–	–	–	(2,898)
Loss on disposal of property, plant and equipment	885	–	–	–	–	–	885

For the year ended 31 December 2015

	Sale of handsets, solutions and intelligent terminals <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Sale of display modules <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:								
Additions of property, plant and equipment	14,420	8,105	7,579	7,299	–	17	66	37,486
Additions of intangible assets	105,949	43,017	4,399	18,597	–	–	–	171,962
Depreciation of property, plant and equipment	44,735	10,397	2,953	3,242	–	453	2,013	63,793
Amortisation of intangible assets	78,798	41,602	1,851	3,314	–	–	–	125,565
Amortisation of land use rights	1,833	496	127	391	–	–	149	2,996
(Reversal of) allowance for bad and doubtful debts	(1,230)	1,833	–	–	–	–	–	603
Impairment loss recognised in respect of property, plant and equipment	–	–	–	–	4,305	–	–	4,305
Loss on disposal of property, plant and equipment	2,402	–	–	–	–	–	–	2,402
	<u>2,402</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,402</u>

Revenue from major products/services

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sale of handsets, solutions and intelligent terminals	1,271,117	2,043,240
Sale of wireless communication modules	815,016	638,847
Sale of goods to vending machine customers and franchisees	272,490	252,805
Finance lease of equipment	3,720	4,329
Procurement agency service	26,144	15,856
Sale of intelligent manufacturing products	143,454	80,301
Sale of residential properties	192,449	161,911
	<u>2,724,390</u>	<u>3,197,289</u>

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of total sales of the Group are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A ¹	N/A ³	654,009
Customer B ²	<u>N/A³</u>	<u>517,955</u>

+

- ¹ Customer A operates in the mobile phone technology industry in the PRC.
- ² Customer B operates in the mobile phone technology industry in Taiwan.
- ³ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Geographical information

The Group's revenue and non-current assets are substantially located in the PRC, the country of domicile from which the group entities derive revenue and hold assets. Accordingly, no further analysis is presented.

5. Other income

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Refund of Value Added Tax ("VAT") (<i>Note</i>)	10,876	8,227
Government grants	20,034	28,122
Interest income earned on bank balances and structured deposits	2,575	6,863
Interest income earned on entrusted loan receivables	8,938	12,787
Rental income (Less: outgoings of HK\$2,967,000 (2015: HK\$3,734,000))	28,464	37,336
Others	115	1,523
	<u>71,002</u>	<u>94,858</u>

Note:

Shanghai Simcom Limited ("Shanghai Simcom") and Shanghai Simcom Wireless Solutions Limited ("Simcom Wireless") (2015: Shanghai Simcom, Shanghai Wireless and Shenzhen Zhuoxuda Technology Development Company Limited) are engaged in the business of distribution of self-developed and produced software and the development of automated test equipment and software. Under the current PRC tax regulation, they are entitled to a refund of VAT paid for sales of self-developed and produced software and the development of automated test software in the PRC.

6. Other gains and losses

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss on disposal of property, plant and equipment	(885)	(2,402)
Net foreign exchange loss	(22,397)	(43,362)
Changes in fair values of investment properties	12,348	13,210
Gain on disposal of a subsidiary	—	2,191
Net reversal of allowance (allowance) for bad and doubtful debts	3,324	(603)
Reversal of impairment loss (impairment loss) recognised in respect of property, plant and equipment	6,304	(4,305)
	<u>(1,306)</u>	<u>(35,271)</u>

7. Finance costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interests on bank borrowings wholly repayable within five years	<u>10,140</u>	<u>14,381</u>

8. Taxation

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PRC Enterprise Income Tax ("EIT")	(16,892)	(14,154)
Land appreciation tax in the PRC	(3,801)	(3,239)
Overprovisions on PRC EIT in previous years	<u>7,447</u>	<u>3,620</u>
	<u>(13,246)</u>	<u>(13,773)</u>
Deferred tax expense for current year	<u>(8,821)</u>	<u>(6,002)</u>
Taxation for the year	<u>(22,067)</u>	<u>(19,775)</u>

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

PRC EIT is calculated at the rates prevailing in the relevant districts of the PRC and taking relevant tax incentives into account.

9. Profit for the year

	2016 HK\$'000	2015 HK\$'000
Profit for the year is arrived at after charging (crediting):		
Auditor's remuneration	2,160	1,950
Amortisation of intangible assets (included in cost of sales)	156,182	125,565
Less: Amount capitalised in development costs	(4,307)	(2,645)
	151,875	122,920
Amortisation of land use rights	3,114	2,996
Depreciation of property, plant and equipment	68,395	63,793
Less: Amount capitalised in development costs	(2,864)	(3,845)
	65,531	59,948
Reversal of allowance of inventories (included in cost of sales)	(2,898)	–
Costs of inventories recognised as an expense (included in cost of sales)	2,149,914	2,635,235
Costs of properties sold (included in cost of sales)	172,695	136,291
Staff costs:		
Directors' emoluments	5,343	4,769
Other staff costs		
– Salaries and other benefits	317,352	301,443
– Retirement benefits scheme contributions	61,914	57,707
– Share-based payments	2,904	2,904
	387,513	366,823
Less: Amount capitalised in development costs	(146,920)	(130,248)
	240,593	236,575

10. Dividends

The Directors recommend the payment of a final dividend of HK\$25,579,000 (HK1 cent per share) (2015: nil) for the year ended 31 December 2016 which is subject to approval by the Shareholders in the forthcoming annual general meeting.

11. Earnings per share

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

	2016 HK\$'000	2015 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earning per share (profit for the year attributable to owners of the Company)	<u>77,278</u>	<u>64,645</u>
	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,557,896	2,557,747
Effect of dilutive potential ordinary shares – share option	<u>–</u>	<u>15,092</u>
Weighted average number of ordinary shares for the purpose of diluted earning per share	<u>2,557,896</u>	<u>2,572,839</u>

For the year ended 31 December 2016, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise prices of these share options were higher than the average market price for shares for the year.

12. 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 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:

	2016 HK\$'000	2015 HK\$'000
Trade receivables		
0 – 30 days	164,342	169,379
31 – 60 days	31,917	75,372
61 – 90 days	26,616	26,913
91 – 180 days	14,260	3,688
Over 180 days	19,163	30,964
	256,298	306,316
Less: Accumulated allowances	(21,821)	(31,551)
Trade receivables	234,477	274,765
Notes receivables (note)		
0 – 30 days	23,324	17,591
91 – 180 days	520	–
	23,844	17,591
	258,321	292,356

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

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year. The Group has policy for allowance of bad and doubtful debts which is based on an evaluation of the collectability and age analysis of accounts on every individual trade debtor basis and on management's judgment including creditworthiness and the past collection history of each customer.

13. 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:

	2016 HK\$'000	2015 HK\$'000
0 – 30 days	327,308	569,902
31 – 60 days	21,918	35,444
61 – 90 days	9,316	4,112
Over 90 days	15,676	18,943
	<u>374,218</u>	<u>628,401</u>

FINAL DIVIDEND

The Board proposed to recommend a final dividend of HK1 cent per ordinary share to shareholders of the Company ("Shareholders") for the Year. Subject to the approval of the Shareholders at the forthcoming annual general meeting ("AGM"), the proposed final dividend will be paid on or about Thursday, 29 June 2017 to Shareholders whose names appear on the register of members of the Company on Friday, 16 June 2017. Based on 2,557,896,300 ordinary shares of the Company in issue as at the date of this announcement, the total dividend will amount to approximately HK\$25.6 million.

CLOSURE OF REGISTER OF MEMBERS

For determining Shareholders' right to attend and vote at the AGM:

Closure dates of register of members (both days inclusive)	5 June 2017 (Monday) to 8 June 2017 (Thursday)
Latest time to lodge transfers	4:30p.m. on 2 June 2017 (Friday)
Record date	8 June 2017 (Thursday)
AGM	8 June 2017 (Thursday)

For determining Shareholders' entitlement to receive the proposed final dividend*:

Closure dates of register of members (both days inclusive)	14 June 2017 (Wednesday) to 16 June 2017 (Friday)
Latest time to lodge transfers	4:30p.m. on 13 June 2017 (Tuesday)
Record date	16 June 2017 (Friday)
Proposed final dividend payment date	29 June 2017 (Thursday)

(* subject to the Shareholders' approval at the AGM)

During the periods of the closure of register of members, no share transfers will be registered. For registration, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before the relevant latest time to lodge transfers.

ANNUAL GENERAL MEETING

The AGM will be held at Unit 2402, 24th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 8 June 2017. The notice of the AGM will be posted on the respective websites of the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") and dispatched to the Shareholders in due course.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In these few years, the Group has continued to implement its strategies of business models' transformation, "shifting from the manufacturing industry to the information technology services industry, and from a product-oriented manufacturer to a service-oriented service provider". To align with the Group's business positioning and development directions after the transformation, all business segments of the Group are transforming and upgrading their business models. The ODM terminal business, for example, has changed its business model from serving mid-to-low-end consumer handset market to industrial application and Internet of Things ("IOT") terminal markets that focus on high-end differentiated market. Wireless communication modules also developed very quickly. The Group has accelerated its development of new service-oriented businesses while intelligent manufacturing business entered a growth path. Automatic vending machine IOT business also adjusted its development path to provide a one-stop asset-light service platform to automatic vending machine vendors. Overall, since the handset business shrunk its scale on mid-to-low-end consumer ODM handset which has high risks yet low gross profit margin, the Group's overall revenue for the Year has dropped 14.8% when comparing to 2015. However, due to the enormous growth of other businesses, the Group's net profit surged by 19.5% while average gross profit margin recorded an increase of 1.4%. The business transformation has resulted in a healthier business for the Group in general.

Looking back at 2016, the overall development and business re-positioning strategies implemented for the Group's successful business transformation started to bear fruit. For handset and intelligent terminal business, since the Group has gradually switched to serve differentiated consumer handsets and industrial application terminal customers, the Group no longer developed mid-to-low-end consumer handsets that are homogeneous, single model, in bulk shipments, and generates narrow gross profit margins. As such, overall sales volume and sales amount of this business declined year-on-year. Nevertheless, as the industrial application terminals have higher average selling price ("ASP") and a more reasonable gross profit, the overall gross profit margin of this business segment increased slightly for the Year.

With the increasing demand for wireless communication modules in both domestic and overseas markets, overall shipment grew by more than 27% when compared with last year, in which sales volume of 3G and 4G products had greater growth. Hence, both the revenue and gross profit of this business increased during the Year. Despite the decline in ASP of 2G and other low-end modules, with sales volume of 3G and 4G modules attaining notable growth, the gross profit margin of this business remained at the same level as last year.

In 2016, the Group adjusted its development path for the automatic vending machines IOT business, and strived to transform to provide one-stop-service asset-light service platform for mid-to-small-sized vending machine operators and beverages manufacturers. The platform provides services including backstage software system service, vending machine storage upgrading and transformation service, online value-added service, offline beverages wholesale distribution services, and financial leasing services.

Since 2015, the Group has pushed ahead with developing its intelligent manufacturing business. It began with developing automated robotic testing equipment and, by 2016, it has ventured at full thrust into the intelligent manufacturing field and expanded its research and development (“R&D”) teams for robotics application and integration. As the Group quickly captures market share in the handset manufacturing market, it also expanded its business into other 3C electronic industries and other manufacturing industry. Meanwhile, the Group also developed industrial IOT technology with a focus on optical, artificial intelligence technology and backstage software system. During the year under review, the revenue and gross profit margin of this business grew significantly.

Handsets and intelligent terminals business

Low-end brand and low-price handset models are still the main choice of domestic operators for target markets where major high-ranking handset brands basically sell their products through public channels and on e-commerce platforms, and part of them also sell through the channels of handset operators. As the PRC smartphone market approaches saturation, there is an increasing trend of concentration of brands and models, but certain brands and models have stood out and began to target niche markets by introducing differentiated handset models. These models, though of small shipment, have higher gross profit margin and can enhance customer loyalty. The Group’s handset ODM business still mainly focuses on mid-to-high-end differentiated consumer handset products, mostly products of 4G models. At the same time, the Group is closely monitoring the trend of various specialised IOT technology such as the increasingly popular NB-IOT, and is prepared to enter the market when suitable opportunities arise. In the short term, the Group’s terminal business will still be mainly supported by the PRC market. However, as overseas customers and products continue to increase, the domestic and overseas markets are expected to eventually carry equal weight in the business.

As the scope of application of IOT technology widens, the industrial terminal market continues on the growth path. Especially product areas such as scan terminal, mobile POS device and logistics terminal are starting to see the emergence of immense market opportunities. Also, intercom network terminal dedicated to enterprises, outdoor waterproof, dust-proof and shock resistant terminal and vehicle terminal arenas also have huge room for development. Recently, AR terminals for industrial enterprises are also catching attention because of their strong potential. The Group has products shipped and also projects underway in those categories.

Europe, the United States (“US”), Japan and the Middle East continue to be the Group’s major overseas markets. The Group also has its eye on mid-to-high-end product opportunities in Southeast Asia and India. We believe overseas markets are important markets for the Group’s terminal segment, hence it has to step up investment to boost its development. Overseas customers typically have more stringent requirements on technological capability, quality control and ability to ensure long-term supply. This is the Group’s core competitive strengths. The Group is, according to plan, customising its industrial terminal and consumer products for Japanese operators and overseas customers in the US and Europe. Delivery of most of the newly developed products is expected to start in the third quarter of 2017, therefore will contribute to the Group’s business results in the second half of 2017 and year 2018.

Wireless communication modules business

In 2016, the overall market demand for IOT capacity continued to rise. Overall shipments increased by more than 27% when compared with last year, with sales volume of 3G and 4G products boasting higher growth. By proportion, intelligent POS, intelligent meter and healthcare modules accounted for larger shipment volume. Also, 4G module products have higher selling prices, resulting in a notable growth in overall sales volume of this business segment. In the PRC market, the Group had at first instance launched a full range of products to meet customers’ needs. For 2G products, those new emerging industries that have smaller demand for industry data still have room for growth in demand. For example, the growth in bike sharing and healthcare industries are expanding rapidly. In overseas markets, as many regions have been affected by slow economic growth and lack of government support, some user-end projects in which early stage investment were made only managed relatively slow progress and many of them are still in the market grooming stage. However, in some high-end markets such as regions including the US and Japan, most of the Group’s 4G products had obtained international accreditation and operator certifications, which laid a solid foundation for the Group to bring its products to customers. The Group’s shipment volume to overseas markets, especially Europe, still showed more significant growth against last year, owed mainly to the contribution from the 2G and 3G security and vehicle markets.

Wireless communication modules business is the Group’s quality asset with an outstanding R&D team and marketing team that has a comprehensive range of products being well-received by customers and supported by quality domestic and overseas agents and customers, which explains the business segment’s world-leading shipment volume. To aid its transformation, the Group has been looking for strategic partners in recent years with strengths that can complement its own in the hope of giving new impetus to the modules business in order to maintain its world-leading position.

IOT business

In 2016, cloud-based automatic vending machine switched its development path from the originally asset-heavy operation mode of directly managing operations and recruiting businesses for the financing of leasing investments, to asset-light Online-to-Offline service platform. Halfway into 2016, the Group's cloud-based business changed its focus and transformed into an integrated service platform for automatic vending machine operators and beverages manufacturers. Other than having its backstage systems to provide operators with data services, the Group uses its strength in IT to provide upgrading services for operators with old and outdated machines, so that they can upgrade the machines which could only receive coins and notes to those that can enjoy integrated online payment or even larger advertisement monitors, at low costs. This significantly increased the sales volume of these beverages machines. In addition, the service platform provides operators with integrated value-added marketing service (including points redemption, voucher, effective marketing of fast consumer goods, and advertisements). Also, the platform provides beverages wholesale distribution services and financial leasing services, which enables the Group to become an integrated service platform designed for vending machine operators and beverages manufacturers. At the same time, cloud-based business reduced the scale of directly managed vending machines operation and left only a small amount for testing of service platform. This asset-light operation mode can unleash the Group's IT technical strengths and business operations will also be healthier.

Intelligent manufacturing business

In the past year, the Group continued to invest in developing its intelligent manufacturing business, aiming at manufacturing industry's three weaknesses. The Group developed three main divisions with the foundation of its three core technologies.

The first division: the use of robotic integrated applications in automated equipment to replace operations in the production line that requires large amount of operation procedures.

This division started four years ago when the Group decided to enter the intelligent manufacturing business. In the past year, the Group made full use of its technological advantage in manufacturing robots for automatic testing of circuit boards in handsets, and quickly began to gain market share in the handset manufacturing industry. During the Year, various domestic handset manufacturers in the PRC began mass procurement; therefore the Group's products during the Year recorded significant growth in sales. However, the market competition of robotic integrated applications industry has sped up faster than we expected. Chinese companies that have strong mechanical and electrical equipment for manufacturing also joined the industry during the past two years. As such, the Group strives to, at the same time, improve its products' performance and efficiency, and also reduce the material costs so as to maintain the core competitiveness and leading market position for survival in the cruel price-competitive market.

In addition, other than deeply drilling into the handset industry by continuously launching more automatic equipment to fulfil the vision of fully automated and intellectualisation of handset manufacturing, the Group will continue to explore other new industries apart from handset and handset parts such as 3C electronics, vehicles parts manufacturing, as well as low voltage electrical appliances industries.

The second division: the use of robotic vision and artificial intelligent technologies in optical system products to replace large number of visual inspections tasks done by workers.

First of all, the Group made full use of its experiences in manufacturing handset parts and its strengths in its visual software and technology in artificial intelligence, and decided to enter the market within the visual industry that has the largest potential but also with most obstacles – detection of bad handset glass cover, as its main goal. After one year of continuous experiments, the Group's Automatic Optical Inspection (AOI) detection and warning system have received recognition from the two largest manufacturers in the PRC, which is expected to bring in substantial revenue to the Group in 2017.

The third division: develop an industrial integrated internet intellectual system with a focus on backstage software to replace or assist white-collar workers in enterprises such as planners and warehouse managers in simple and straightforward computer operation.

This division is mostly targeted at meeting the requirement from “Made in China 2025” to build on the automatic systems of factories, coupled with the digitalised, networked and ultimately high degree of intelligence. This is consistent with the Industry description 4.0 from Germany and Industrial Internet from the US. The Group will continue to develop a more comprehensive Manufacturing Execution System (MES) and Warehouse Management System (WMS). And the first step is to build a model intelligent factory in its own handset manufacturing factories, including an intelligent three-dimensional warehouse, which will start demonstration and promotion to its customers in 2017.

During the Year, since the Group has demonstrated a successful transformation of its business to intelligent manufacturing, it has been awarded the “2016 Integrated Standardisation and New Model Application for Intelligent Manufacturing” from the Ministry of Industry and Information Technology of the PRC, which is the highest honour to date awarded in the country for intelligent manufacturing enterprises and amongst 63 other enterprises in the industry.

Properties development

As at 31 December 2016, “The Riverside Country” (晨興 • 翰林水郡) in Shenyang City, the PRC, had sold 1,338 residential units of the total of 1,842 in all its four phases.

As at 31 December 2016, Phase I of “Seven River in Sweet” (七里香溪) in Taizhou City, the PRC, had sold 251 residential units of the total of 310. Construction of Phase II had commenced and is expected to be completed in the second half of 2017.

The sales of properties recognised for 2016 amounted to HK\$192.4 million (2015: HK\$161.9 million), with gross profit margin at 12.1% (2015: 15.8%).

PROSPECTS

In the future, the Group will continue to implement its development strategies, “shifting from the manufacturing industry to the information technology services industry, and transform itself from a product-oriented manufacturer to a service-oriented service provider”.

For ODM handset business, global demand for differentiated handsets and the industrial IOT market will continue to grow, which will bring abundant opportunities to our terminal ODM business. The management expects the handset business to derive most of its profits from differential handsets and industrial application terminals in 2017. The Group will continue to strengthen its development in overseas market with the future development strategy of having equal emphasis on both the domestic and overseas markets for its handset business.

Regarding wireless communication module business, after years of effort, the Group is one of the leading manufacturers in the industry now. However, in order to bring in new impetus into the module business for maintaining a global leading position, the Group has introduced a strategic partner (for details, please refer to the announcement dated 22 January 2017). After the transaction is completed, the business nature of the wireless communication module business will switch from product oriented manufacturer (having its own brand with independent R&D and marketing team) to service oriented EMS provider (only responsible for procurement, logistics to manufacturing). Therefore, the Group’s last product oriented business would be completely changed to service oriented.

For automatic vending machine business, the Group will promote a variety of quality services of the integrated service platform to vending machine operators in 2017, especially through the transformation of a large number of old and outdated vending machines in the existing market, in order to rapidly expand the number of operators and vending machines on the platform. The Group will continue to strengthen the development of its value-added business for intelligent automatic vending machine. Through the cooperation on cloud-based business with UnionPay, we are able to achieve a win-win situation where UnionPay uses the Group’s vending machine network to promote its new businesses through this high-frequency yet small amount transaction channel while the Group can benefit from UnionPay’s marketing and channel support. Moreover, the Group will continue to expand the application of cloud computing big data service platform to support development of its own smart home and elderly care service systems, health monitoring systems and vehicle security systems.

Intelligent manufacturing is the latest business pursuit of the Group. It boasts huge development potential and after several years of hard work, it has seen preliminary results. The Group intends to increase investment and expand the business scope into more industrial markets. Furthermore, it will continue to develop three technologies which are robotic integrated applications, optical system and artificial intelligence, and industrial internet to replace most of the blue-collar workers who are responsible for non-technical manufacturing procedures, and also part of the low skilled white-collar workers in order to assist them to move to positions that require higher technical knowledge. The development will help reduce production cost, improve labour environment, and more importantly avoid the occurrence of human error, and thereby significantly improving the overall quality of enterprises.

The management believes the development in the past year has proved that the new development directions and strategies of the Group are correct. The completion of business transformation achieved initial results that laid the foundation for the sustainable development. The management expects that new businesses will hurl the Group's development to new heights again in the next few years.

FINANCIAL REVIEW

For the year ended 31 December 2016, the revenue from sale of handsets, solutions and intelligent terminals, wireless communication modules, internet of things business and intelligent manufacturing business ("Core Business") decreased by 16.6% to HK\$2,531.9 million (2015: HK\$3,035.4 million). The revenue from the sale of residential units in PRC amounted to HK\$192.4 million (2015: HK\$161.9 million). The total revenue of the Group for the Year, included revenue of Core Business and properties development, amounted to HK\$2,724.4 million (2015: HK\$3,197.3 million).

The gross profit for Core Business of the Group for the Year decreased by 5.4% year-on-year to HK\$378.6 million (2015: HK\$400.2 million). The gross profit margin for Core Business increased to 15.0% (2015: 13.2%). The overall gross profit margin of the Group for the Year was 14.7% (2015: 13.3%).

The Group achieved a profit attributable to owners of the Company which increased year-on-year by 19.5% to HK\$77.3 million (2015: HK\$64.6 million) for the Year. The basic earnings per share for the Year was HK3.02 cents (2015: HK2.53 cents).

Research and development expenses

In 2016, the Group mainly focused on the development of intelligent manufacturing businesses. The number of design and development team members was 860 (2015: 790) in 2016. Total R&D expenses of the Group, which amounted to HK\$102.2 million (2015: HK\$148.9 million), represented 3.8% (2015: 4.7%) of the Group's revenue.

Selling and distribution costs

The selling and distribution costs of the Group for the Year increased by 5.9% to HK\$135.9 million (2015: HK\$128.3 million). The ratio of the selling and distribution costs over revenue in 2016 was 5.0 % (2015: 4.0%).

Administrative expenses

The Group's administrative expenses for 2016 increased by 21.7% to HK\$125.2 million (2015: HK\$102.9 million), representing 4.6% (2015: 3.2%) of the revenue.

Segment results of Core Business

	Year ended 31 December 2016			Year ended 31 December 2015		
	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, solutions and intelligent terminals	1,271.1	158.2	12.4	2,043.2	235.8	11.5
Wireless communication modules	815.0	118.4	14.5	638.9	94.7	14.8
Internet of things business	302.3	45.9	15.2	273.0	42.2	15.5
Intelligent manufacturing business	143.5	56.1	39.1	80.3	27.5	34.2
Total	<u>2,531.9</u>	<u>378.6</u>	<u>15.0</u>	<u>3,035.4</u>	<u>400.2</u>	<u>13.2</u>

Handsets, solutions and intelligent terminals

During the Year, since more customers have shifted towards using differentiated consumer handsets, the Group no longer developed consumer handsets that are homogeneous and single model with bulk shipment, which generates narrow gross profit margins. As a result, the revenue of this segment decreased significantly year-on-year by 37.8% to HK\$1,271.1 million (2015: HK\$2,043.2 million) in 2016. Nevertheless, as the application terminals have higher average selling price and profit margin, the overall gross profit margin of this business segment increased slightly to 12.4% (2015: 11.5%) for the Year. The revenue of ODM business contributed to approximately 73% of the revenue of this segment in 2016 (2015: 65%).

Wireless communication modules

During the Year, the Group has recorded growth in revenue and gross profit of wireless communication modules. The growth was attributable to the increasing demand for wireless communication modules in both domestic and overseas markets, especially the sales volume of 3G and 4G products had greater growth. The gross profit margin of this segment for the Year maintained similar at 14.5% (2015: 14.8%).

Internet of things business

During the Year, the revenue of this segment increased 10.8% to HK\$302.3 million (2015: HK\$273.0 million). That was mainly due to the increase in number of customers brought in from the Group's beverage trading business. The gross profit margin for the Year maintained similar at 15.2% (2015: 15.5%).

Intelligent manufacturing business

Since 2015, the Group has pushed ahead with developing its intelligent manufacturing business, and, by 2016, enabled it to quickly capture market share in the handset manufacturing market. With the volume of procurement of materials bumped up, production efficiency improved and equipment failure rate lowered, the Group's procurement, production, trial costs as well as maintenance costs for customers' equipment had decreased accordingly. As a result, the revenue for the Year of this segment increased substantially by 78.6% to HK\$143.5 million (2015: HK\$ 80.3 million), while gross profit increased substantially by 104%. The gross profit margin also increased to 39.1% (2015: 34.2%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 31 December 2016, the Group had bank balances and cash of HK\$249.1 million (31 December 2015: HK\$298.4 million), among which 72.7% was held in Renminbi, 27.1% was held in US dollars and the remaining balance was held in Hong Kong dollars. The Group also had pledged bank deposits of HK\$76.6 million (31 December 2015: HK\$102.9 million) in Renminbi for the purpose of the Group's Renminbi borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including investment properties, property, plant and equipment, land use rights and notes receivables) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$300.0 million (31 December 2015: HK\$333.5 million), all of which was denominated in Renminbi. All of the bank borrowings were at floating interest rates and repayable within one year.

Operating Efficiency

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

	2016	2015
	Days	Days
Inventory turnover period	119	71
Trade and notes receivables turnover period	40	33
Trade and notes payables turnover period	88	64

In the fourth quarter of 2016, the purchase volume of the Group was large as to fulfill the sales orders of first quarter of 2017. The inventory turnover period thus increased significantly as compared to that of year 2015.

As the trade receivables for intelligent manufacturing business, which have longer credit period than other Core Business, increased for the Year as compared to year 2015, so the overall trade and notes receivables turnover period increased for the Year as compared to that of year 2015.

The trade and notes payables turnover period increased for the Year as compared to that of year 2015 because the average balance of trade and notes payables increased for the Year.

As at 31 December 2016, the current ratio, calculated as current assets over current liabilities, was 1.9 times (31 December 2015: 1.8 times).

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

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income. As at 31 December 2016, the Group has entrusted a total amount of HK\$112.7 million under certain asset management agreements for investment periods from six months to two years. During the Year, the Group did not have any other security or capital investments or derivative investments.

Certain sales and purchases of inventories of the Group are denominated in US dollars. Furthermore, certain trade receivables, trade payables, bank balances and bank borrowings are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. During the Year, the Group entered into a foreign exchange forward contracts of US\$20 million to reduce the foreign exchange exposures in US dollars. Save as disclosed, the Group did not use any financial instrument for hedging purpose.

CAPITAL STRUCTURE

As at 31 December 2016, the Company had 2,557,896,300 ordinary shares of HK\$0.10 each in issue.

No shares of the Company has been issued or repurchased during the Year.

CASH FLOW STATEMENT HIGHLIGHTS

	2016 <i>HK\$' million</i>	2015 <i>HK\$' million</i>
Net cash from operating activities	211.0	161.6
Capital expenditure	(59.0)	(25.4)
Development costs	(194.5)	(172.0)
Net (decrease)/increase in bank borrowings	(18.1)	25.3
Net decrease in entrusted loan receivables	3.5	45.4
Proceeds from disposal of equipment	5.3	2.9
Deposits received for disposal of an associate	1.2	8.6
Bank interest paid	(10.1)	(14.4)
Repayment to non-controlling shareholders of subsidiaries	(9.4)	–
Others	(5.4)	(4.9)
Net (decrease)/increase in cash and cash equivalents (including pledged bank deposits)	(75.5)	27.1

GEARING RATIO

As at 31 December 2016, the total assets of the Group was HK\$3,479.8 million (31 December 2015: HK\$3,396.1 million) and the bank borrowings was HK\$300.0 million (31 December 2015: HK\$333.5 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 8.6% (31 December 2015: 9.8%).

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

FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the circular of the Company dated 28 February 2017, the Group intends to use part of the net proceeds from the Disposal (as defined below) in the following manner:

- as to approximately HK\$112.7 million for upgrading the production facilities of the factory for manufacturing handsets and redeveloping the production lines for the Group and establishing an MES (manufacturing execution system) and intelligent logistics AGV (automatic guided vehicle) system; and
- as to approximately HK\$67.6 million for setting up a model intelligent warehouse for intelligent robotic manufacturing business.

Save as disclosed, the Group did not have any plans for material investment or capital assets during the Year.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Year, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

SIGNIFICANT INVESTMENT

As at 31 December 2016, the available-for-sale investment represented the Group's investment in 3.41% of the shares in Shanghai Guao Electronic Technology Co.,Ltd ("Shanghai Guao") ("Investment") and the Investment cost was approximately HK\$16.9 million. During the Year, Shanghai Guao became listed on the ChiNext of the Shenzhen Stock Exchange. The fair value, based on the quoted market price, of the Investment at 31 December 2016 is approximately HK\$187.4 million. No dividends was received from Shanghai Guao during the Year. Shanghai Guao specializes in the research and development, manufacturing, marketing and service of innovative financial equipment. The Group noted the development strategy of Shanghai Guao as stated in its prospectus which was signed on 22 August 2016, that Shanghai Guao will always adhere to the concept of "quality is the core of survival, innovation is the origin of development", through recruiting high quality talent, increasing R&D investment, insisting on independent R&D, paying attention to product quality, improving the level of after-sales service to provide financial institutions, including banks, with financial equipment products of excellent quality, leading technology, with timely after-sale service, and will strive to become a leading company in the financial equipment industry of the PRC.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 31 December 2016, the Group had approximately 2,390 (2015: 2,600) employees. The Group operates a Mandatory Provident Fund retirement benefits scheme for all of 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 and may grant share options under the share option scheme of the Company to its employees by reference to individual performance and the performance of the Group. Total staff costs incurred by the Group amounted to HK\$387.5 million (2015: HK\$366.8 million) during the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EVENTS AFTER THE REPORTING PERIOD

On 20 January 2017, SIM Technology Group (BVI) Limited (a wholly-owned subsidiary of the Company) and u-blox AG, which is a wholly-owned subsidiary of u-blox Holding AG (a company listed on the SIX Swiss Exchange), entered into the technology assignment contract and the asset purchase agreement, pursuant to which the Group agreed to sell the Group's 2G, 3G, 4G wireless communication module and GNSS module business related technology and assets at the aggregate consideration of US\$52.5 million ("Disposal"). The Disposal was approved by the Shareholders at the special general meeting of the Company held on 23 March 2017. As at the date of this announcement, the Disposal has not yet completed.

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 for the Year.

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

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

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

At the annual general meeting of the Company held on 1 June 2016 (“2016 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 2016 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 of the Board and the audit committee of the Board (“Audit Committee”), was also available at the 2016 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 the Directors, that each of them has fully complied with the required standard as set out in the Model Code for the Year.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practice adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the consolidated financial statements of the Group for the Year and has recommended their adoption by the Board.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the respective websites of the Company (www.sim.com) and of the Stock Exchange (www.hkexnews.hk). The 2016 annual report will be despatched to the Shareholders and be 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 Year.

DIRECTORS

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

30 March 2017

* For identification purposes only