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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 2017

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 2017 (“Year”) together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2017	2016
	Notes	HK\$'000	HK\$'000
		Audited	Audited
Revenue	3	3,258,517	2,724,390
Cost of sales		(2,863,306)	(2,322,609)
Gross profit		395,211	401,781
Other income	5	73,736	71,002
Other gains and losses	6	37,678	(1,306)
Research and development expenses		(90,641)	(102,196)
Selling and distribution costs		(144,433)	(135,938)
Administrative expenses		(122,238)	(125,170)
Share of results of associates		(1,527)	(1,533)
Finance costs	7	(8,990)	(10,140)
Profit before taxation		138,796	96,500
Taxation	8	(36,190)	(22,067)
Profit for the year	9	102,606	74,433
Profit for the year attributable to:			
Owners of the Company		111,651	77,278
Non-controlling interests		(9,045)	(2,845)
		102,606	74,433
Earnings per share (HK cents)	11		
Basic		4.36	3.02
Diluted		4.36	3.02

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	Audited	Audited
Profit for the year	<u>102,606</u>	<u>74,433</u>
Other comprehensive (expense) income		
Items that may not be subsequently reclassified to profit or loss during the year:		
Fair value change on available-for-sale investment	(107,195)	170,573
Deferred tax arising from fair value change on available-for-sale investment	26,799	(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>93,628</u>	<u>(80,699)</u>
Other comprehensive income	<u>13,232</u>	<u>47,231</u>
Total comprehensive income for the year	<u>115,838</u>	<u>121,664</u>
Total comprehensive income (expense) attributable to:		
Owners of the Company	118,777	128,063
Non-controlling interests	<u>(2,939)</u>	<u>(6,399)</u>
	<u>115,838</u>	<u>121,664</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK\$'000 Audited	2016 HK\$'000 Audited
Non-current assets			
Investment properties		384,949	350,779
Property, plant and equipment		399,258	376,914
Land use rights		86,793	84,185
Intangible assets		188,765	148,405
Deferred tax assets		47,339	43,719
Finance lease receivables		705	637
Interest in associates		2,274	3,800
Available-for-sale investment		80,253	187,448
Consideration receivable		1,733	1,621
		1,192,069	1,197,508
Current assets			
Inventories		758,531	737,417
Finance lease receivables		2,097	6,085
Properties under development for sale		–	359,130
Properties held for sale		502,998	167,355
Trade and notes receivables	12	344,208	258,321
Other receivables, deposits and prepayments		331,579	275,090
Consideration receivable		723	676
Amount due from an associate		3,200	2,000
Amounts due from non-controlling shareholders of subsidiaries		11,633	11,633
Entrusted loan receivables		36,150	112,700
Pledged bank deposits		30,125	76,636
Bank balances and cash		417,092	249,132
		2,438,336	2,256,175
Assets classified as held for sale		–	26,117
		2,438,336	2,282,292
Current liabilities			
Trade and notes payables	13	393,750	374,218
Other payables, deposits received and accruals		599,012	423,995
Other liabilities		141,154	–
Amounts due to non-controlling shareholders of subsidiaries		–	35,613
Bank borrowings		84,104	299,991
Tax payable		37,992	23,138
		1,256,012	1,156,955
Liabilities associated with asset classified as held for sale		–	24,794
		1,256,012	1,181,749
Net current assets		1,182,324	1,100,543
Total assets less current liabilities		2,374,393	2,298,051

	2017 <i>HK\$'000</i> Audited	2016 <i>HK\$'000</i> Audited
Capital and reserves		
Share capital	255,955	255,790
Reserves	<u>1,865,855</u>	<u>1,770,956</u>
Equity attributable to owners of the Company	2,121,810	2,026,746
Non-controlling interests	<u>101,481</u>	<u>105,801</u>
Total equity	<u>2,223,291</u>	<u>2,132,547</u>
Non-current liabilities		
Deferred tax liabilities	99,151	111,638
Deferred income	<u>51,951</u>	<u>53,866</u>
	<u>151,102</u>	<u>165,504</u>
	<u><u>2,374,393</u></u>	<u><u>2,298,051</u></u>

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 (the “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 and internet of things (“IOT”) terminals business, wireless communication modules business, carrying out IOT system and online-to-offline (“O2O”) business, intelligent manufacturing business 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 certain 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 revised 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 IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised loss
Amendments to IFRS 12	As part of the annual improvements to IFRSs 2014-2016 cycle

Except as described below, 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 these consolidated financial statements.

Amendments to IAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following 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.

A reconciliation between the opening and closing balances of relevant items is provided. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not effective

The Group has not early applied the following new and revised 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
IFRS 17	Insurance contracts ⁴
IFRIC 22	Foreign currency transactions and advance consideration ¹
IFRIC 23	Uncertainty over income tax treatments 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 9	Prepayment features with negative compensation ²
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 19	Plan amendment, curtailment or settlement ²
Amendments to IAS 28	Long-term interests in associates and joint ventures ²
Amendments to IAS 28	As part of the annual improvements to IFRS 2014-2016 cycle ¹
Amendments to IAS 40	Transfers of investment property ¹
Amendments to IFRSs	Annual improvements to IFRSs 2015-2017 cycle ²

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 2021

Except for the new and amendments to IFRSs mentioned below, the Directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 financial assets are measured at their fair value at 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.

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the Directors of the Company anticipate the following potential impact on initial application of IFRS 9.

Classification and measurement:

Debt instruments classified as loan receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

Listed equity securities classified as available-for-sale investments carried at fair value: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Directors have elected to present subsequent changes in fair value in other comprehensive income, however, the fair value gains or losses accumulated in the assets revaluation reserve amounting to HK\$47,534,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group’s profit or loss and other comprehensive income but will not affect total comprehensive income;

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss would reduce the opening accumulated profits at 1 January 2018.

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. In 2016, clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance has been issued.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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. Upon application of 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 by the Group.

Under IAS 17, the Group has already recognised 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 2017, the Group has non-cancellable operating lease commitment of HK\$13,061,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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. In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payment under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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 40 “Transfers of investment property”

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The Directors of the Company anticipate that the application of these amendments will result in early recognition of such transfers on the Group’s consolidated financial statements in future periods should there be a change in use of any of its properties.

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, the Group has changed its segment names from “sales of handsets, solutions and intelligent terminals” to “handsets and IOT terminals business”; from “sales of wireless communication modules” to “wireless communication modules business”; and from “internet of things business” to “IOT system and O2O business”. However, the underlying businesses of these segments are same as prior year.

During the year ended 31 December 2017 and 2016, the Group was organised into five reportable and operating segments, being handsets and IOT terminals business, wireless communication modules business, IOT system and O2O business, intelligent manufacturing business and property development.

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 2017

	Handsets and IOT terminals business <i>HK\$'000</i>	Wireless communication modules business <i>HK\$'000</i>	IOT system and O2O business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
			(Note)			
Revenue						
External sales	<u>1,076,853</u>	<u>1,454,923</u>	<u>318,942</u>	<u>101,428</u>	<u>306,371</u>	<u>3,258,517</u>
Segment profit (loss)	<u>26,394</u>	<u>57,478</u>	<u>(9,188)</u>	<u>(12,453)</u>	<u>34,543</u>	96,774
Other income and other gains and losses						78,646
Share of results of associates						(1,527)
Corporate expenses						(26,107)
Finance costs						<u>(8,990)</u>
Profit before taxation						<u>138,796</u>

For the year ended 31 December 2016

	Handsets and IOT terminals business HK\$'000	Wireless communication modules business HK\$'000	IOT system and O2O business HK\$'000 (Note)	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Consolidated HK\$'000
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>	96,779
Other income and other gains and losses						39,815
Share of results of associates						(1,533)
Corporate expenses						(28,421)
Finance costs						<u>(10,140)</u>
Profit before taxation						<u>96,500</u>

Note: The IOT system and O2O 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, unallocated exchange gain or loss, loss on disposal of property, plant and equipment, gain on disposal of an associate, fair value change on derivative financial instruments, certain other income, 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 2017

	Handsets and IOT terminals business <i>HK\$'000</i>	Wireless communication modules business <i>HK\$'000</i>	IOT system and O2O 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>
Segment assets	891,788	653,297	153,196	214,891	554,350	2,467,522
Investment properties						384,949
Property, plant and equipment						102,230
Land use rights						44,543
Deferred tax assets						47,339
Entrusted loan receivables						36,150
Interests in associates						2,274
Available-for-sale investment						80,253
Consideration receivable						2,456
Amounts due from non-controlling shareholders of subsidiaries						11,633
Amount due from an associate						3,200
Other receivables, deposits and prepayments						639
Pledged bank deposits						30,125
Bank balances and cash						417,092
Consolidated assets						<u>3,630,405</u>
Segment liabilities	506,278	174,713	15,699	84,328	397,630	1,178,648
Other payables, deposits received and accruals						7,219
Bank borrowings						84,104
Tax payable						37,992
Deferred tax liabilities						99,151
Consolidated liabilities						<u>1,407,114</u>

	Handsets and IOT terminals business HK\$'000	Wireless communication modules business HK\$'000	IOT system and O2O business HK\$'000 (Note)	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Consolidated HK\$'000
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>3,479,800</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>1,347,253</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 IOT system and O2O business, intelligent manufacturing business and property development, the remaining liabilities are allocated between payables jointly consumed by reportable and operating segments on handsets and IOT terminals and wireless communication modules business and corporate liabilities. Corporate liabilities include certain other payables, deposits received and accruals, tax payable, bank borrowings, deferred tax liabilities and liability associated with asset classified as held for sale.

Other segment information

For the year ended 31 December 2017

	Handsets and IOT terminals business <i>HK\$'000</i>	Wireless communication modules business <i>HK\$'000</i>	IOT system and O2O 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	40,437	9,239	1,170	2,142	–	46	53,034
Additions of intangible assets	85,313	78,408	803	41,410	–	–	205,934
Depreciation of property, plant and equipment	28,938	9,487	3,829	2,391	163	6,900	51,708
Amortisation of intangible assets	90,497	42,034	4,134	39,677	–	–	176,342
Amortisation of land use rights	924	914	152	34	–	1,087	3,111
Net reversal of allowance for bad and doubtful debts	(854)	–	–	–	–	–	(854)
Reversal of allowance of inventories	(11,706)	–	–	–	–	–	(11,706)
Loss on disposal of property, plant and equipment	1,035	32	642	127	–	–	1,836

For the year ended 31 December 2016

	Handsets and IOT terminals business HK\$'000	Wireless communication modules business HK\$'000	IOT system and O2O business HK\$'000	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
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
Net 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

Revenue from major products/services

	2017 HK\$'000	2016 HK\$'000
Sale of handsets and IOT terminals	1,076,853	1,271,117
Sale of wireless communication modules	1,454,923	815,016
Sale of goods to vending machine customers and franchisees	299,749	272,490
Finance lease of equipment	1,965	3,720
Procurement agency service	17,228	26,144
Sale of intelligent manufacturing products	101,428	143,454
Sale of residential properties	306,371	192,449
	<u>3,258,517</u>	<u>2,724,390</u>

Geographical information

The Group's revenue and non-current assets are substantially generated from and 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

	2017 HK\$'000	2016 HK\$'000
Refund of Value Added Tax (“VAT”)	9,652	10,876
Government grants	22,863	20,034
Interest income earned on bank balances	4,693	2,575
Interest income earned on entrusted loan receivables	7,021	8,938
Rental income (Less: outgoings of HK\$2,661,000 (2016: HK\$2,967,000))	25,526	28,464
Dividend income from available-for-sale investment	171	—
Others	3,810	115
	<u>73,736</u>	<u>71,002</u>

6. Other gains and losses

	2017 HK\$'000	2016 HK\$'000
Loss on disposal of property, plant and equipment	(1,836)	(885)
Net foreign exchange gain (loss)	30,223	(22,397)
Changes in fair values of investment properties	9,565	12,348
Net reversal of allowance for bad and doubtful debts	854	3,324
Reversal of impairment loss recognised in respect of property, plant and equipment	—	6,304
Loss from disposal of a subsidiaries	118	—
Fair value change on derivative financial instruments-forward contracts	(9,982)	—
Gain on disposal of an associate	8,736	—
	<u>37,678</u>	<u>(1,306)</u>

7. Finance costs

	2017 HK\$'000	2016 HK\$'000
Interests on bank borrowings	<u>8,990</u>	<u>10,140</u>

8. Taxation

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
PRC Enterprise Income Tax (“EIT”)	(18,673)	(16,892)
Land Appreciation Tax in the PRC	(5,797)	(3,801)
Overprovisions on PRC EIT in previous years	<u>—</u>	<u>7,447</u>
	<u>(24,470)</u>	<u>(13,246)</u>
Deferred tax expense for current year	<u>(11,720)</u>	<u>(8,821)</u>
Taxation for the year	<u>(36,190)</u>	<u>(22,067)</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 rate prevailing in the relevant districts of the PRC and taking relevant tax incentives into account.

9. Profit for the year

2017
HK\$'000

2016
HK\$'000

Profit for the year is arrived at after charging (crediting):

Auditor's remuneration	2,200	2,160
Amortisation of intangible assets	176,342	156,182
Less: Amount capitalised in development costs	(1,085)	(4,307)
Less: Amount capitalised in inventories	(175,257)	(151,875)
	—	—
Amortisation of land use rights	3,111	3,114
Depreciation of property, plant and equipment	51,708	68,395
Less: Amount capitalised in development costs	(3,279)	(2,864)
Less: Amount capitalised in inventories	(29,769)	(37,528)
	18,660	28,003
Reversal of allowance of inventories (included in cost of sales)	(11,706)	(2,898)
Costs of inventories recognised as an expense (included in cost of sales)	2,621,764	2,149,914
Costs of properties sold (included in cost of sales)	241,542	172,695
Staff costs:		
Directors' emoluments	5,354	5,343
Other staff costs		
– Salaries and other benefits	252,206	317,352
– Retirement benefits scheme contributions	49,172	61,914
– Share-based payments	1,282	2,904
	308,014	387,513
Less: Amount capitalised in development costs	(119,998)	(146,920)
Less: Amount capitalised in inventories	(29,621)	(17,105)
	158,395	223,488

10. Dividends

The Directors recommend the payment of a final dividend of HK\$40,953,000 (HK1.6 cents per share) (2016: HK\$25,579,000 (HK1 cent per share)) for the year ended 31 December 2017 which is subject to approval by the shareholders of the Company 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:

	2017 HK\$'000	2016 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>111,651</u>	<u>77,278</u>
	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,558,338	2,557,896
Effect of dilutive potential ordinary shares – share option	<u>4,756</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,563,094</u>	<u>2,557,896</u>

For the year ended 31 December 2016, the computation of diluted earnings per share did 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables		
0 – 30 days	181,821	164,342
31 – 60 days	55,644	31,917
61 – 90 days	25,079	26,616
91 – 180 days	14,633	14,260
Over 180 days	47,859	19,163
	<u>325,036</u>	256,298
Less: Accumulated allowances	<u>(22,455)</u>	<u>(21,821)</u>
Trade receivables	<u>302,581</u>	234,477
Notes receivables (<i>Note</i>)		
0 – 30 days	35,172	23,324
61 – 90 days	1,514	–
91 – 180 days	4,941	520
	<u>344,208</u>	<u>258,321</u>

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 is presented based on the invoice date for trade payables or date of issuance for notes payables is as follows:

	2017 HK\$'000	2016 HK\$'000
0 – 30 days	279,846	327,308
31 – 60 days	9,114	21,918
61 – 90 days	2,076	9,316
Over 90 days	63,551	15,676
	<u>354,587</u>	<u>374,218</u>
Notes payables		
0 – 30 days	39,163	–
	<u>393,750</u>	<u>374,218</u>

FINAL DIVIDEND

The Board proposed to recommend a final dividend of HK1.6 cents 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, 28 June 2018 to Shareholders whose names appear on the register of members of the Company on Friday, 15 June 2018. Based on 2,559,546,300 ordinary shares of the Company in issue as at the date of this announcement, the total final dividend will amount to approximately HK\$40,953,000.

CLOSURE OF REGISTER OF MEMBERS

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

Closure dates of register of Shareholders (both days inclusive)	4 June 2018 (Monday) to 7 June 2018 (Thursday)
Latest time to lodge transfers	4:30 p.m. on 1 June 2018 (Friday)
Record date	7 June 2018 (Thursday)
AGM	7 June 2018 (Thursday)

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

Closure dates of register of Shareholders (both days inclusive)	13 June 2018 (Wednesday) to 15 June 2018 (Friday)
Latest time to lodge transfers	4:30 p.m. on 12 June 2018 (Tuesday)
Record date	15 June 2018 (Friday)
Proposed final dividend payment date	28 June 2018 (Thursday)

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

During the periods of the closure of register of Shareholders, 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 24th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 7 June 2018. 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

The Group's business transformation has started to bear fruit, thanks to vigorous efforts it has undertaken in the past years. In 2017, affected by unfavorable factors such as the challenging global economic environment, large exchange rate fluctuations and intensifying market competition, nonetheless, the Group achieved revenue of HK\$3,258.5 million, representing an increase of 19.6% when compared with last year. Gross profit decreased by 1.6% year-on-year to HK\$395.2 million. These results were attributable to the growth of wireless communication modules and the transformation of handsets and internet of things ("IOT") terminals business. While the new businesses of IOT system and online-to-offline ("O2O") business and intelligent manufacturing business did not progress satisfactorily and failed to contribute sufficient revenue and a reasonable profit to the Group, the Group's revenue still achieved a solid rise while gross profit and total profit of the Group basically stayed flat as compared with that of last year.

Handsets and IOT terminals business

The Group started with the provision of mobile handset original design manufacturer (“ODM”) services 15 years ago, and had three stages of development with each stage spanning around five years. During the first stage, the Group operated in the form of an independent design house (“IDH”) providing research and development (“R&D”) services for small and medium customers, turnkey solutions for handsets and full set of raw materials or components of handsets. The IDH operation mode was not involved in the production of fully-completed mobile handsets, thus the Group was able to avoid intellectual property disputes. The second stage was characterised by the operation of its ODM services. During the second stage, the Group served top-tier customers in domestic and overseas markets by providing ODM services as well as the delivery of a full set of products for consumer handsets. During the third stage, the Group gradually transformed itself to venture into the IOT terminals business. In the consumer handsets segment, the Group proactively exited from its low-end to mid-range handsets business, which had high risk yet low gross profit margin, and focus on the high-end handsets business only, particularly the high-end handsets with retail prices from US\$1,000 to US\$2,000. In 2017, the IOT/industrial application terminals business contributed a major proportion of the revenue and gross profit in the handsets and IOT terminals business segment.

In 2017, the sales volume of this business segment declined by 46.2% year-on-year and its average selling price escalated by 100% year-on-year. Revenue dropped by 15.3%. Gross profit margin was 12.7% and remained at a similar level as last year. The decline in revenue was due to the great drop in the revenue contribution from consumer handsets, which largely accounted for last year’s revenue. The revenue for this year was mainly derived from the IOT/industrial application terminals and some differentiated high-end handset products, with higher selling prices and gross profit margins but much lower shipment volumes. Moreover, many components from the upstream supply chain were in serious shortage and the price of some components such as memories surged substantially starting from the second half of the year 2016. Fortunately, the IOT/industrial application terminals with a higher gross profit margin offset the effects caused by the above negative factors, so the gross profit margin was similar to that of last year.

The Group has adhered to its development strategies consistently in recent years. It has retained the high-end handsets ODM business and at the same time has vigorously developed the IOT/industrial application terminals business. With the maturity of the 5G and NB-IOT standards, the IOT market has huge growth potential, in particular for product areas such as scan, mobile Point of Sale (“POS”), logistics and Internet of Vehicles (“IOV”) terminals. Furthermore, products such as dedicated enterprise intercom network terminals, outdoor waterproof, dust-proof and shock resistant terminals, vehicle terminals and augmented reality terminals for industrial enterprises have vast room for development. In recent years, the Group has continued to invest in those areas and its products have gained first-mover advantages in terms of shipments. The IOT terminals and industrial application terminals business had fast growth in Europe, America and Japan. In light of this, apart from continuously prospecting for new IOT terminal customers in China, the Group has also targeted mainly the developed regions such as Europe, America and Japan as its main overseas expansion directions through its sales network and agency appointments. As the Group pushes ahead with developing its IOT terminals business, it has

also grasped opportunities to develop quality high-end consumer ODM handsets in order to maintain its economies of scale and boost the competitiveness of its supply chain. With enormous market potential and first-mover advantages, the Group believes that this business segment should continue to expand.

Wireless communication modules business

The wireless communication modules business refers to the R&D and sales of 2G, 3G and 4G wireless communication modules and Global Navigation Satellite System (“GNSS”) modules business operated by the Group’s subsidiary, Shanghai Simcom Wireless Solutions Limited.

In 2017, revenue of this business segment increased by 78.5%. Gross profit margin dropped to 8.8% when compared with that of last year. The growth in revenue was attributable to the continued booming development of the global IOT market and the rising demand for the Group’s wireless communication modules in domestic and overseas markets, particularly the significant growth in 2G modules for bike sharing and smart home applications in People’s Republic of China (“China” or “PRC”) and the 4G modules for intelligent meter, IOV and intelligent POS applications. In the bike sharing market, the Group has captured most of the market share through its strong support to its top three customers in that sector. This business segment experienced a substantial increase in revenue, but the gross profit margin was very low due to intensifying competition among module suppliers in the bike sharing market. As the bike sharing-related business represented more than half of the shipment volume of this business segment, the gross profit margin of the whole business segment showed greater decline. Major reasons for the decline were the serious shortage and higher prices of some core components such as memories, printed circuit boards and capacitors starting from the second half of last year.

IOT system and O2O business

This business sector comprises of two segments: the first segment is the provision of various types of “cloud” system solutions with a back-end software system as the core; and the second segment is the provision of an O2O cloud trading platform to vending machine operators. (This business segment does not include the IOT terminals business.)

In 2017, the revenue of this business segment increased by 5.5% when compared with last year. Gross profit margin of this business segment was 12.6%, which is a significant decline when compared with last year. Overall profit of this business sector has decreased. The Group has developed mature system solutions encompassing intelligent elderly care service systems, health monitoring systems, vending machine operation services and vehicle anti-theft management systems. However, low sales revenues were recorded for these solutions in 2017 due to the absence of marketing and sales strategies.

As for the cloud trading platform, the Group has adjusted the development strategy from the originally asset-heavy operation mode of directly managing and operating vending machines and recruiting businesses for the financing of leasing investments to a one-stop-service asset-light O2O service platform. In 2017, the Group recorded a growth in the revenue derived from the provision of beverage wholesale and delivery services to vending machine operators and upgrade service for outdated vending machines. The increase in revenue was attributable to the establishment of a sub-depot by Shanghai Yunhao Trading Limited, a subsidiary of the Group, in other regions and the addition of business

channels. Meanwhile, the Group eliminated the directly managed and operated vending machine outlets with poor efficiency and reduced the amount of financing leasing, that led to a non-operating loss. The operation of some sub-depots has not reached a break-even point while the necessary wages, warehousing and logistics expenses were still incurred, which dragged down the profitability of this business segment.

Intelligent manufacturing business

The Group's intelligent manufacturing segment comprises of three business units. The first business unit is engaged in producing automated equipment based on integrated robotic applications, which would be used to replace operations in the production line that are labour intensive. This has served as a starting point for the Group to enter the intelligent manufacturing market and the Group possesses significant market shares in the global market. The second business unit is committed to developing optical system products, which are focusing on machine vision and artificial intelligence ("AI") technology intended to replace a large number of visual inspection workers in the production line. However, this unit has been unable to secure major orders and continued investment in R&D resources is still needed. The third business unit aims to tap the industrial internet intellectual system through the development of the back-end software to replace or assist simple and straightforward computer operations for a white-collar worker in manufacturing or supply-chain management, such as a planner and a warehouse manager. This business unit has not generated actual revenue as it is still at the optimisation and marketing stage.

In 2017, turnover in this segment declined by 29.3% compared with that of the previous year, while its gross profit margin was similar and overall profit dropped. As the China government implemented a deleveraging policy in 2017, most manufacturing companies became more prudent in equipment investments, which suppressed the market demand. Many traditional mechanical assembly companies in China rushed to develop intelligent and automated manufacturing, which fueled competition and triggered a price war. As the Group assigns top priority to product quality and customer reputation, it has forfeited some business opportunities that could only be won with low prices. Besides, several automation companies that the Group acquired two years ago recorded losses, because they are currently managed by joint venture partners and operating beyond its effective control. Therefore, the factors above have contributed to segmental turnover and overall profit falling below expectation, and to some extent lower than that of last year. Despite the fierce competition from other players, the Group managed to stabilise the gross profit margin, capitalising on its technology edge and strong reputation in the market.

The Group has continued to develop our intelligent manufacturing business. To better serve its customers, the Group has established two automation business bases, one in Qingpu in Eastern China and one in Songshanhu in Southern China, to form a complete platform for R&D and sales. The Group is using these bases to optimise corporate structure, reform the operational model, and reinforce its leading presence in the 3C products testing sector. It is striving to secure large international EMS providers as customers and extend the applications of its products to other industries including optical AI, intelligent logistics, intelligent storage, etc.

Properties development

As at 31 December 2017, “The Riverside Country” (晨興 • 翰林水郡), in Shenyang City, the PRC, has a total of 1,842 residential units in all its four phases, of which 1,680 units had been sold.

As at 31 December 2017, “Seven River in Sweet” (七里香溪), in Taizhou City, the PRC, has a total of 757 residential units and 22 commercial units completed in all its two phases, of which 736 units and 22 units had been sold respectively.

The revenue of properties development for 2017 was amounted to HK\$306.4 million (2016: HK\$192.4 million) with gross profit margin of 16.9% (2016: 12.1%).

Prospects

In executing its transformation strategy and facilitating the development of the wireless communication modules business, the Group has entered into a sale and purchase agreement with 深圳日海通訊技術股份有限公司 (Shenzhen Sunsea Telecommunication Co., Ltd.*), to dispose 100% equity interests in Shanghai Simcom Wireless Solutions Limited (“Simcom Wireless”), a subsidiary of the Group. Further details are disclosed in the section of “Material Acquisition and Disposal of Subsidiaries and Associated Companies” in this announcement.

Prior to this disposal, the Group’s wireless communication modules business had covered the entire business chain of wireless communication modules operations, from product development (including product planning and specifications), procurement of raw materials, production processing (including logistics and delivery of finished products) to sales operations. Upon completion of this disposal, the Group will only be responsible for procurement of raw materials and production processing (including logistics and delivery of finished products). The wireless communication modules business is expected to remain as one of the Group’s business segments subsequent to this disposal. Its turnover should not drop significantly compared with the period before this disposal, however its business nature will change from an original brand manufacturer (“OBM”) to an electronics manufacturing services (“EMS”) provider. By then, the gross profit margin would drop notably but the Group would no longer need to bear the huge R&D expenses and marketing costs of the modules business, nor the inventory risk of raw materials.

This disposal will not affect the Group’s handsets and IOT terminals business. In the future, the Group will continue to focus on the IOT/industrial terminals markets, in order to better understand the demand and weakness of different business segments. The Group will also increase the investments in R&D, and actively plan and develop terminals or specialised modules that suit the markets. Regarding market development, the Group will focus more on securing new customers in overseas markets. The proceeds from the above mentioned disposal will be used to build an operations center in Dongguan and a factory to upgrade handsets. The Directors believe that the Group can stand out amidst the keen competition of the IOT terminals market.

Regarding the IOT system and O2O business, the Group will continue to bolster the R&D and marketing of IOT back-end software and expand the cloud computing and big data service platform. The Group will also further expand the ancillary applications of self-developed IOT terminals for different industries, so as to bring new business opportunities to the IOT system and O2O business segment. At the same time, the Group will retain the service platform model for automatic vending machines, in order to build an integrated service platform to focus on serving small-to-medium automatic vending machine operators and beverage manufacturers. This asset-light operation mode is expected to optimise the Group's IT technical strengths and control operational risks while facilitating overall business operations.

Intelligent manufacturing business is the Group's latest business pursuit and has strong potential for development. After years of efforts, out of three production lines, the automated robotic line has carved out market share in the handsets manufacturing industry. The performance of the optical technological products has proven that they can create huge value for customers. Industrial internet products have been increasingly deployed at our factories. After several years' of hard work, the entire business team has grown into a top unit integrating R&D, manufacturing, sales and after-sales functions. Transformation to intelligent robotic manufacturing has become a major trend in manufacturing within China, thus, there will be a strong demand for intelligent manufacturing and AI in the future. The competition in the industry among homogeneous products or for talent is expected to become more intense. Facing a fiercely competitive market, the Group's intelligent manufacturing team has made the necessary full preparation and the Group, for its part, will nurture their entrepreneurial "can-do" spirit through more effective solutions. Thus the Group expects the intelligent manufacturing business will develop rapidly in the next few years.

More than ten years ago, the Group has constructed its headquarters in Shanghai, namely SIM Technology Building Block A and Block B which were intended partly for internal use and partly for leasing. The property market in China had not surged at that time, so the leasing area was relatively small and the rent was low. The Group didn't launch a dedicated leasing business, rather it was considered as other income only. However, the property market in China has become more and more prosperous in recent years with a substantial increase in rent. Thus, the Group has moved part of the staff to the Qingpu factory as the rent there is lower, and subsequently enlarged the leasing area at the Shanghai headquarters. To utilise our resources more effectively, the Group is developing the property leasing business by leasing out the spare space at factories and other buildings. At the same time, the Group plans to invest and build a southern base in Dongguan, and parts of the properties are to be earmarked for the leasing business as well. The Group believes that the property market in China has passed the stage of explosive growth, nonetheless will keep growing steadily, rental income will become a stable growth business of the Group.

Looking ahead, the Group will enhance its business transformation, develop value-added businesses and refine its business model as it tightens control and management of costs and expenses. While transformation can be painful for a fresh start, so every staff should have the ambition to start a new business, embrace the change and bear the responsibilities. We firmly believe that the Group will create greater economies of scale to accommodate the continuous development of its business.

FINANCIAL REVIEW

During the Year, the revenue from handsets and IOT terminals business, wireless communication modules business, IOT system and O2O business and intelligent manufacturing business (“Core Business”) increased by 16.6% to HK\$2,952.1 million (2016: HK\$2,531.9 million). The revenue from the sale of residential units in PRC amounted to HK\$306.4 million (2016: HK\$192.4 million). The total revenue of the Group for the Year, included revenue of Core Business and properties development, amounted to HK\$3,258.5 million (2016: HK\$2,724.4 million).

The gross profit for Core Business of the Group for the Year decreased by 9.2% year-on-year to HK\$343.5 million (2016: HK\$378.6 million). The gross profit margin for Core Business decreased to 11.6% (2016: 15.0%). The overall gross profit margin of the Group for the Year was 12.1% (2016: 14.7%).

The Group achieved a profit attributable to owners of the Company which increased year-on-year by 44.5% to HK\$111.7 million (2016: HK\$77.3 million) for the Year. The basic earnings per share for the Year was HK4.36 cents (2016: HK3.02 cents).

Research and development expenses

In 2017, the Group mainly focused on the development of intelligent manufacturing businesses. The number of design and development team members was 840 (2016: 860) in 2017. Total R&D expenses of the Group, which amounted to HK\$90.6 million (2016: HK\$102.2 million), represented 2.8% (2016: 3.8%) of the Group’s revenue.

Selling and distribution costs

The selling and distribution costs of the Group for the Year increased by 6.3% to HK\$144.4 million (2016: HK\$135.9 million). The ratio of the selling and distribution costs over revenue in 2017 was 4.4 % (2016: 5.0%).

Administrative expenses

The Group’s administrative expenses for 2017 decreased by 2.4% to HK\$122.2 million (2016: HK\$125.2 million), representing 3.8% (2016: 4.6%) of the revenue.

Segment results of core business

	Year ended 31 December 2017			Year ended 31 December 2016		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	HK\$'M	HK\$'M	%	HK\$'M	HK\$'M	%
Handsets and IOT terminals business	1,076.9	136.4	12.7	1,271.1	158.2	12.4
Wireless communication modules business	1,454.9	127.7	8.8	815.0	118.4	14.5
IOT system and O2O business	318.9	40.2	12.6	302.3	45.9	15.2
Intelligent manufacturing business	101.4	39.2	38.7	143.5	56.1	39.1
Total	<u>2,952.1</u>	<u>343.5</u>	<u>11.6</u>	<u>2,531.9</u>	<u>378.6</u>	<u>15.0</u>

Handsets and IOT terminals business

During the Year, since more customers have shifted towards using IOT/industrial application terminals and some differentiated high-end handsets products, the Group no longer developed consumer handsets that are homogeneous and single model with bulk shipment, which generates narrow gross profit margins. However, the IOT/industrial application terminals and some differentiated high-end handset products have higher selling prices and gross profit margins but much lower shipment volumes. As a result, the revenue of this segment decreased significantly year-on-year by 15.3% to HK\$1,076.9 million (2016: HK\$1,271.1 million) in 2017. Nevertheless, as the application terminals having higher average selling price and profit margin, the overall gross profit margin of this business segment increased slightly to 12.7% (2016: 12.4%) for the Year. The revenue of ODM business contributed to approximately 72% of the revenue of this segment in 2017 (2016: 73%).

Wireless communication modules business

Due to the increasing demand for the Group's wireless communication modules from domestic bike sharing industry, revenue of this segment increased year-to-year by 78.5%. However due to the declining average selling price of 2G and other low-end modules, the gross profit margin decreased to 8.8% (2016: 14.5%).

IOT system and O2O business

During the Year, the revenue of this segment increased 5.5% to HK\$318.9 million (2016: HK\$302.3 million). That was mainly due to the increase in establishment of a sub-depot by the Group in other regions and the addition of business channels. Meanwhile, the Group eliminated the directly managed and operated vending machine outlets with poor efficiency and reduced the amount of financing leasing, leading to a non-operating loss. The operation of some sub-depots has not reached a break-even point while the necessary wages, warehousing and logistics expenses were still incurred, which dragged down the profitability of this business segment. The gross profit margin for the Year decreased to 12.6% (2016: 15.2%).

Intelligent manufacturing business

As the China government implemented a deleveraging policy in 2017, most manufacturing companies became more prudent in equipment investments, which suppressed the market demand. Besides, several automation companies that the Group acquired two years ago recorded losses, because they are currently managed by joint venture partners and operating beyond its effective control. As a result, the revenue for the Year of this segment decreased by 29.3% to HK\$101.4 million (2016: HK\$ 143.5 million), while gross profit decreased by 30%. The gross profit margin also decreased to 38.7% (2016: 39.1%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 31 December 2017, the Group had bank balances and cash of HK\$417.1 million (31 December 2016: HK\$249.1 million), among which 88.3% was held in Renminbi, 11.5% was held in US dollars and the remaining balance was held in Hong Kong dollars. As at 31 December 2017, the Group also had pledged bank deposits of HK\$30.1 million (31 December 2016: HK\$76.6 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 property, plant and equipment, investment properties, land use rights and notes receivables) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$84.1 million as at 31 December 2017 (31 December 2016: HK\$300.0 million), all of which HK\$62.1 million was denominated in Renminbi and HK\$22.0 million was denominated in US dollars. 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:

	2017 Days	2016 <i>Days</i>
Inventory turnover period	105	119
Trade and notes receivables turnover period	37	40
Trade and notes payables turnover period	48	88

In the Year, due to significant increase in sales volume, the purchase and cost of sales of the Group increased significantly. The inventory turnover period thus decreased as compared to that of year 2016.

The trade and notes receivable turnover period decreased for the Year as compared to that of year 2016 due to the significant increase in sales for the Year.

The trade and notes payables turnover period decreased for the Year as compared to that of year 2016 due to the decrease in average balance of trade and notes payables for the Year.

As at 31 December 2017, the current ratio, calculated as current assets over current liabilities, was 1.9 times (31 December 2016: 1.9 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 2017, the Group has entrusted a total amount of HK\$36.2 million under certain asset management agreements for an investment period of one year. 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 2016, the Group entered into a foreign exchange forward contract of US\$20.0 million to reduce the foreign exchange exposures in US dollars. The aforementioned foreign exchange forward contract was matured on 16 November 2017 and there was no outstanding foreign exchange forward contract as at 31 December 2017. Save as disclosed, as at 31 December 2017, the Group did not use any financial instrument for hedging purpose.

CAPITAL STRUCTURE

As at 31 December 2017, the Company had 2,559,546,300 ordinary shares of HK\$0.10 each in issue.

The Company has issued 1,650,000 ordinary shares of HK\$0.1 each upon exercise of share options of the Company during the Year.

Save as disclosed above, no shares of the Company has been issued or repurchased during the Year.

CASH FLOW STATEMENT HIGHLIGHTS

	2017 <i>HK\$' million</i>	2016 <i>HK\$' million</i>
Net cash from operating activities	380.2	211.0
Capital expenditure	(53.5)	(59.0)
Development costs	(201.1)	(194.5)
Net decrease in bank borrowings	(236.6)	(18.1)
Net decrease in entrusted loan receivables	76.6	3.5
Proceeds from disposal of equipment	2.4	5.3
Deposits received for disposal of an associate	–	1.2
Bank interest paid	(9.0)	(10.1)
Dividend paid	(25.6)	–
Repayment to non-controlling shareholders of subsidiaries	(35.6)	(9.4)
Deposits received from disposal of subsidiaries	62.4	–
Consideration received from disposal of an associate	10.1	–
Increase in other liabilities	141.2	–
Others	9.9	(5.4)
Net increase/(decrease) in cash and cash equivalents (including pledged bank deposits)	121.4	(75.5)

GEARING RATIO

As at 31 December 2017, the total assets value of the Group was HK\$3,630.4 million (31 December 2016: HK\$3,479.8 million) and the bank borrowings was HK\$84.1 million (31 December 2016: HK\$300.0 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 2.3% (31 December 2016: 8.6%).

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.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 20 January 2017, SIM Technology Group (BVI) Limited, a wholly-owned subsidiary of the Company and u-blox AG, a wholly-owned subsidiary of u-blox Holding AG (a company listed on the SIX Swiss Exchange), entered into the technology assignment (“Technology Assignment Contract”) and the asset purchase agreement (“Asset Purchase Agreement”), pursuant to which the Group has 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.

On 21 May 2017, the Group and u-blox AG have mutually agreed not to proceed with the above mentioned proposed disposal. Both parties have therefore decided to amicably terminate the Technology Assignment Contract and Asset Purchase Agreement and all ancillary agreements.

Further details of the above mentioned proposed disposal are disclosed in the announcements of the Company dated 22 January 2017 and 22 May 2017 and the circular of the Company dated 28 February 2017.

On 22 September 2017, the Company, Simcom International Holdings Limited (“Simcom International”), 上海移為通信技術股份有限公司 (Queclink Wireless Solutions Co., Ltd.*) (“Queclink Wireless”), Richjoy Talent Limited (“Richjoy”), Shanghai Simcom Electronic Limited (“Simcom Electronic”, together with Simcom Wireless as the “Target Companies”) and Simcom Wireless entered into a sale and purchase agreement under which Simcom International has conditionally agreed to sell, and Queclink Wireless and Richjoy have conditionally agreed to purchase the equity interest in the Target Companies at the aggregate consideration of RMB528 million.

On 7 December 2017, the Company, Simcom International, Queclink Wireless, Richjoy, the Target Companies, Shenyang SIM Simcom Technology Limited and Shanghai SIM Technology Limited entered into a termination agreement for the above mentioned sale and purchase agreement.

Further details of the above mentioned proposed disposal are disclosed in the announcements of the Company dated 22 September 2017, 24 November 2017 and 7 December 2017.

On 21 December 2017, the Company, Simcom International (an indirect wholly-owned subsidiary of the Company), 深圳日海通訊技術股份有限公司 (Shenzhen Sunsea Communication Technology Co. Limited*) (“Shenzhen Sunsea”) (a company listed on the Shenzhen Stock Exchange), Simcom Electronic and Simcom Wireless entered into the sale and purchase agreement (“Sale and Purchase Agreement”) under which Simcom International has conditionally agreed to sell, and Shenzhen Sunsea has conditionally agreed to purchase, 100% of the equity interest of Simcom Wireless (“Disposal”). It is expected that approximately 35% of the actual net gain from the disposal will be used for payment of a special interim dividend. Further details of the amount of the special interim dividend and the record date of the entitlements will be announced by the Company after completion. Details of the Disposal are disclosed in the announcements of the Company dated 21 December 2017 and 13 February 2018 and the circular of the Company dated 18 January 2018.

Save as disclosed above, during the Year, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the circular of the Company dated 18 January 2018, the Group intends to use part of the net proceeds from the Disposal in the following manner:

- as to approximately HK\$201.5 million for purchase of the land for the Group's operations centre in Dongguan, the PRC and the construction of the operation centre; and
- as to approximately HK\$115.1 million for (a) upgrading the production facilities of the Group in Shanghai and the above operations centre and development of an automated intelligent 3D-warehouse; (b) further implementation of the digitizing, networking and intelligent processes by Industry 4.0; and (c) enhancing the competitiveness of the high-end handsets ODM (original design manufacturing) and EMS businesses.

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

SIGNIFICANT INVESTMENT

As at 31 December 2017, 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 2016, 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 2017 is approximately HK\$80.3 million (31 December 2016: HK\$187.4 million). HK\$171,000 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 annual report for the year 2016 issued on April 2017, that Shanghai Guao will focus on the new financial products based on its existing production system and technology reserve. Shanghai Guao will continue to develop its technology so as to improve its sales and after-sale service. Shanghai Guao will develop projects in relation to automated cash treatment.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 31 December 2017, the Group had approximately 2,540 (2016: 2,390) 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\$308.0 million (2016: HK\$387.5 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 13 February 2018, the Shareholders approved the Sale and Purchase Agreement and the transactions contemplated thereunder. Subsequent to 31 December 2017, the Disposal has been completed and the Group is in the process of assessing the relevant financial impact of the Disposal to the Group.

Details of the Disposal are disclosed in the section of "Material Acquisition and Disposal of Subsidiaries and Associated Companies" in this announcement and the announcements of the Company dated 21 December 2017 and 13 February 2018 and the circular of the Company dated 18 January 2018.

Save as disclosed above, there were no significant events of the Group occurred since the end of the Year.

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 8 June 2017 (“2017 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 2017 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 2017 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 of the Board (“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 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 2017 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 are Ms Yeung Man Ying, Mr Wong Cho Tung, Ms Tang Rongrong, Mr Chan Tat Wing, Richard and Mr Liu Jun, and the independent non-executive Directors are Mr Liu Hing Hung, Mr Wang Tianmiao and Mr Wu Zhe.

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.

22 March 2018

* *For identification purposes only*