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SIM TECHNOLOGY GROUP LIMITED

晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 2000)

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (“Board”) of directors (“Directors”) of SIM Technology Group Limited (“Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 June 2019 (“1H-2019”) together with the comparative figures for the six months ended 30 June 2018 (“1H-2018”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

		Six months ended 30 June	
	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	3	517,177	1,528,556
Cost of sales and services		(463,875)	(1,401,903)
Gross profit		53,302	126,653
Other income	5	14,679	15,929
Other expenses		—	(90,499)
Other gains and losses	5	(23,679)	512,164
Research and development expenses		(48,836)	(29,910)
Selling and distribution costs		(36,836)	(71,173)
Administrative expenses		(49,971)	(62,225)
Share of results of an associate		(1,039)	(335)
Finance costs		(640)	(2,041)
(Loss) profit before taxation		(93,020)	398,563
Taxation	6	3,192	(81,479)
(Loss) profit for the period	7	(89,828)	317,084
(Loss) profit for the period attributable to:			
Owners of the Company		(92,789)	330,047
Non-controlling interests		2,961	(12,963)
		(89,828)	317,084
(Loss) earnings per share (HK cents)	9		
Basic		(3.7)	12.9
Diluted		(3.7)	12.9

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

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
(Loss) profit for the period	(89,828)	317,084
Other comprehensive expense for the period:		
Items that will not be subsequently reclassified to profit or loss for the period:		
Surplus on transfer of land use rights and property, plant and equipment to investment properties at fair value	23,146	6,757
Fair value gain (loss) on investment in equity instrument at fair value through other comprehensive income	3,607	(18,355)
Deferred tax relating to items that will not be reclassified to profit or loss	(6,689)	2,900
Exchange difference arising on translation to presentation currency	4,070	(6,776)
Other comprehensive income (expense) for the period	24,134	(15,474)
Total comprehensive (expense) income for the period	(65,694)	301,610
Total comprehensive (expense) income attributable to:		
Owners of the Company	(68,242)	316,540
Non-controlling interests	2,548	(14,930)
	(65,694)	301,610

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
Non-current assets			
Investment properties		511,100	479,282
Property, plant and equipment		297,392	306,179
Right-of-use assets		68,716	–
Land use rights		–	68,104
Intangible assets		129,927	147,950
Goodwill		3,831	–
Deferred tax assets		49,685	44,606
Finance lease receivables		–	328
Interest in associates		33,248	3,044
Equity instruments at fair value through other comprehensive income (“FVTOCI”)		15,717	39,149
Other receivables		8,549	8,793
Consideration receivables		4,805	4,796
		<u>1,122,970</u>	<u>1,102,231</u>
Current assets			
Inventories		376,359	372,846
Finance lease receivables		413	432
Properties held for sale		32,250	41,683
Trade and notes receivables	10	229,024	231,499
Contract assets		3,660	36,353
Other receivables, deposits and prepayments		349,806	423,913
Amount due from an associate		2,200	4,400
Amounts due from non-controlling shareholders of subsidiaries		4,496	4,496
Consideration receivables		3,497	4,601
Entrusted loan receivables		–	25,946
Financial assets at fair value through profit or loss (“FVTPL”)		21,232	18,278
Pledged bank deposits		21,050	57,557
Bank balances and cash		705,846	647,776
		<u>1,749,833</u>	<u>1,869,780</u>

		30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Current liabilities			
Trade and notes payables	11	168,916	184,822
Contract liabilities		258,047	219,345
Other payables, deposits received and accruals		68,490	50,498
Other liabilities		—	29,692
Bank borrowings		107,064	83,887
Lease liabilities		9,208	—
Tax payable		44,499	43,931
		<u>656,224</u>	<u>612,175</u>
Net current assets		<u>1,093,609</u>	<u>1,257,605</u>
Total assets less current liabilities		<u><u>2,216,579</u></u>	<u><u>2,359,836</u></u>
Capital and reserves			
Share capital		245,832	252,025
Reserves		<u>1,800,101</u>	<u>1,907,009</u>
Equity attributable to owners of the Company		2,045,933	2,159,034
Non-controlling interests		<u>20,457</u>	<u>63,405</u>
Total equity		<u>2,066,390</u>	<u>2,222,439</u>
Non-current liabilities			
Lease liabilities		4,881	—
Deferred tax liabilities		107,916	98,200
Deferred income		<u>37,392</u>	<u>39,197</u>
		<u>150,189</u>	<u>137,397</u>
		<u><u>2,216,579</u></u>	<u><u>2,359,836</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 Company is an investment holding company. The principal activities of its subsidiaries are carrying out handsets and internet of things (“IOT”) terminals business, electronic manufacturing services (“EMS”) business, IOT system and online-to-offline (“O2O”) business, intelligent manufacturing business, property development and property management in the People’s Republic of China (“PRC”).

The functional currency of the Company is Renminbi (“RMB”). The condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), as the Directors of the Company 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 condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period.

Other than the change in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”) accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRS Standards

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s performance and financial positions for the current period and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases (“IAS 17”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of Office premises and warehouse that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight- line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities and makes a corresponding adjustment to the related right-of-use assets whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of HK\$11,856,000 and right-of-use assets of HK\$79,960,000 at 1 January 2019 by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.1% per annum.

As a lessee

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	17,314
Lease liabilities discounted at relevant incremental borrowing rates	15,394
Less: Recognition exemption – short term leases	(3,538)
Lease liabilities relating to operating leased recognised upon application of IFRS 16 as at 1 January 2019	11,856
Analysed as	
Current	4,815
Non-current	7,041
	11,856
The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:	
	Right-of- use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	11,856
Reclassified from land use rights	68,104
	79,960
By class:	
Office premises	430
Warehouses	11,426
Land use rights	68,104
	79,960

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The application has insignificant impact on the Group's condensed consolidated statement of financial position at 1 January 2019.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under IFRS 16 at 1 January 2019 HK\$'000
Non-current assets			
Right-of-use assets	—	79,960	79,960
Land use rights	68,104	(68,104)	—
Current liabilities			
Lease liabilities (Note)	—	4,815	4,815
Non-current liabilities			
Lease liabilities (Note)	—	7,041	7,041

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Other than the recognised right-of-use assets and lease liabilities, the application of IFRS 16 has no material impact on the retained profits.

3. REVENUE

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2019 (unaudited)

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS 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>	Property management <i>HK\$'000</i>
Types of goods or services						
Sale of handsets and IOT Terminals	286,753	–	–	–	–	–
Electronic manufacturing services	–	51,170	–	–	–	–
Sale of goods to vending machine customers and franchisee	–	–	97,247	–	–	–
Equipment finance lease service	–	–	78	–	–	–
Procurement agency service	–	–	8,925	–	–	–
Sale of intelligent manufacturing products	–	–	–	46,377	–	–
Sale of properties	–	–	–	–	5,616	–
Property rental	–	–	–	–	–	21,011
	<u>286,753</u>	<u>51,170</u>	<u>106,250</u>	<u>46,377</u>	<u>5,616</u>	<u>21,011</u>
Total	<u>286,753</u>	<u>51,170</u>	<u>106,250</u>	<u>46,377</u>	<u>5,616</u>	<u>21,011</u>
Revenue from contracts with customers and timing of revenue recognition						
A point in time	286,753	–	106,172	46,377	5,616	N/A
Over time	<u>–</u>	<u>51,170</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>N/A</u>
Total	<u>286,753</u>	<u>51,170</u>	<u>106,172</u>	<u>46,377</u>	<u>5,616</u>	<u>N/A</u>

For the six months ended 30 June 2018 (unaudited)

	Handsets and IOT terminals business HK\$'000	EMS business HK\$'000	IOT system and O2O business HK\$'000	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Property management HK\$'000
Types of goods or services						
Sales of handsets and IOT terminals	431,349	–	–	–	–	–
Owned-branded products manufacturing	–	154,112	–	–	–	–
Electronic manufacturing services	–	346,877	–	–	–	–
Sale of goods to vending machine customers and franchisee	–	–	140,494	–	–	–
Equipment finance lease service	–	–	154	–	–	–
Procurement agency service	–	–	15,359	–	–	–
Sale of intelligent manufacturing products	–	–	–	90,254	–	–
Sale of properties	–	–	–	–	330,938	–
Property rental	–	–	–	–	–	19,019
	<u>431,349</u>	<u>500,989</u>	<u>156,007</u>	<u>90,254</u>	<u>330,938</u>	<u>19,019</u>
Total	<u>431,349</u>	<u>500,989</u>	<u>156,007</u>	<u>90,254</u>	<u>330,938</u>	<u>19,019</u>
Revenue from contracts with customers and timing of revenue recognition						
A point in time	431,349	489,259	155,833	90,254	330,938	N/A
Over time	–	11,730	–	–	–	N/A
	<u>431,349</u>	<u>500,989</u>	<u>155,833</u>	<u>90,254</u>	<u>330,938</u>	<u>N/A</u>
Total	<u>431,349</u>	<u>500,989</u>	<u>155,833</u>	<u>90,254</u>	<u>330,938</u>	<u>N/A</u>

Geographical markets

The Group's revenue are substantially generated from the PRC, the country of domicile from which the group entities derive revenue. No further analysis is presented.

4. SEGMENT INFORMATION

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

During the six month period ended 30 June 2019 and 2018, the Group was organised into six reportable and operating segments, being handsets and IOT terminals business, EMS business, IOT system and O2O business, intelligent manufacturing business, property development and property management business.

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

For the six months ended 30 June 2019
(Unaudited)

	Handsets and IOT terminals business HK\$'000	EMS business HK\$'000	IOT system and O2O business HK\$'000 (Note)	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue							
External sales	<u>286,753</u>	<u>51,170</u>	<u>106,250</u>	<u>46,377</u>	<u>5,616</u>	<u>21,011</u>	<u>517,177</u>
Segment (loss) profit	<u>(59,689)</u>	<u>491</u>	<u>(8,121)</u>	<u>(5,584)</u>	<u>(2,646)</u>	<u>10,953</u>	<u>(64,596)</u>
Other income and other gains and losses							(20,177)
Share of result of associates							(1,039)
Corporate expenses							(6,568)
Finance costs							<u>(640)</u>
Loss before taxation							<u>(93,020)</u>

For the six months ended 30 June 2018
(Unaudited)

	Handsets and IOT terminals business HK\$'000	EMS business HK\$'000	IOT system and O2O business HK\$'000 (Note)	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue							
External sales	<u>431,349</u>	<u>500,989</u>	<u>156,007</u>	<u>90,254</u>	<u>330,938</u>	<u>19,019</u>	<u>1,528,556</u>
Segment profit (loss)	<u>9,478</u>	<u>429,635</u>	<u>(4,862)</u>	<u>1,245</u>	<u>(14,108)</u>	<u>15,109</u>	<u>436,497</u>
Other income and other gains and losses							(20,245)
Share of results of an associates							(335)
Corporate expenses							(15,313)
Finance costs							<u>(2,041)</u>
Profit before taxation							<u>398,563</u>

Note: The IOT system and O2O business is still in a developing stage in both periods. 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.

Segment result represents the financial result by each segment without allocation of interest income, unallocated foreign exchange loss, loss on disposal of property, plant and equipment, net gain or loss on financial assets at fair value through profit or loss, allowance for bad and doubtful debt in respect to unallocated assets, share of results of associates, certain other income, corporate expenses, finance costs and taxation.

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

	30 June 2019 HK\$'000 (unaudited)	31 December 2018 HK\$'000 (audited)
Segment assets		
Handsets and IOT terminals business	715,389	703,120
EMS business	305,223	395,041
IOT system and O2O business	151,311	154,458
Intelligent manufacturing business	181,009	179,853
Property development	37,821	46,633
Property management	542,970	511,633
Total segment assets	1,933,723	1,990,738
Unallocated assets	939,080	981,273
Total assets	2,872,803	2,972,011
Segment liabilities		
Handsets and IOT terminals business	387,011	336,631
EMS business	35,203	79,927
IOT system and O2O business	34,200	22,067
Intelligent manufacturing business	52,047	44,252
Property development	15,722	25,538
Property management	7,026	7,517
Total segment liabilities	531,209	515,932
Unallocated liabilities	275,204	233,640
Total liabilities	806,413	749,572

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than certain property, plant and equipment, certain right-of-use assets/land use rights, interests in associates, entrusted loan receivables, consideration receivables, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, bank balances and cash, equity instruments at FVTOCI, financial assets at fair value through profit or loss, deferred tax assets, certain other receivables, deposits and prepayments and amount due from an associate. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments.

For the purposes of monitoring segment performances and allocating resources between segments, all liabilities are allocated to reportable and operating segments other than certain other payables, accruals, tax payable, other liabilities, bank borrowings and deferred tax liabilities.

5. OTHER INCOME/OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income		
Refund of Value Added Tax ("VAT") (<i>Note (i)</i>)	2,010	3,015
Government grants (<i>Note (ii)</i>)	5,155	8,526
Dividend income from equity investments at FVTOCI	—	146
Interest income earned on bank balances	7,226	2,271
Interest income earned on entrusted loan receivables	—	907
Others	288	1,064
	<u>14,679</u>	<u>15,929</u>
Other gains and losses		
Loss on disposal of property, plant and equipment	(885)	(2,469)
Net foreign exchange loss	(6,069)	(5,458)
Changes in fair values of investment properties	3,078	3,154
Net gain on disposal of subsidiaries	—	518,223
Net allowance for bad and doubtful debts	(27,357)	(11,929)
Net gain (loss) on financial assets at fair value through profit or loss	2,954	(372)
Others	4,600	11,015
	<u>(23,679)</u>	<u>512,164</u>

Notes:

- (i) Shanghai Simcom Limited is 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.

- (ii) During the six months ended 30 June 2019, the amount includes HK\$3,716,000 (six months ended 30 June 2018: HK\$7,816,000) unconditional government grants received during the period which was granted to encourage for the Group's research and development activities in the PRC.

As at 30 June 2019, an amount of HK\$41,687,000 (31 December 2018: HK\$43,035,000) remained to be amortised and is included in other payables (for current portion) and deferred income (for non-current portion).

6. TAXATION

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
PRC Enterprise Income Tax	(3,865)	(83,206)
PRC Land Appreciation Tax	4,830	1,557
Overprovisions on PRC Enterprise Income Tax in previous years	–	553
Deferred tax credit (charge)	<u>2,227</u>	<u>(383)</u>
Taxation for the period	<u>3,192</u>	<u>(81,479)</u>

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

PRC Enterprise Income Tax ("EIT") is calculated at the rate prevailing in the relevant districts of the PRC and taking relevant tax incentives into account.

The provision of PRC Land Appreciation Tax is estimated according to the requirements set forth in the relevant tax laws and regulations of the PRC, which is charged at progressive rates ranging from 30% to 60% (six months ended 30 June 2018: 30% to 60%) of the appreciation value, with certain allowable deductions.

7. (LOSS) PROFIT FOR THE PERIOD

Six months ended 30 June

2019 2018

HK\$'000 HK\$'000

(unaudited) (unaudited)

Loss (profit) for the period is arrived at after charging:

Amortisation of intangible assets (included in cost of sales)

Less: Amount capitalised in development costs

Less: Amount capitalised in inventories

59,532	81,716
(3,403)	(3,842)
(56,129)	(77,874)
—	—

Impairment loss recognised in respect of intangible assets
(included in cost of sales)

21,072 —

Amortisation of land use rights

Depreciation of property, plant and equipment

Less: Amount capitalised in development costs

Less: Amount capitalised in inventories

—	1,639
27,529	32,722
(2,284)	(1,424)
(13,701)	(14,635)
11,544	16,663

Depreciation of right-of-use assets

4,550 —

Staff costs including directors' emoluments

Less: Amount capitalised in development costs

Less: Amount capitalised in inventories

125,477	137,030
(42,428)	(38,373)
(7,725)	(7,859)
75,324	90,798

Redundancy costs

— 4,090

Costs of inventories recognised as an expense

(included in cost of sales and services)

410,554 1,050,102

Costs of properties sold (included in cost of sales and services)

4,275 344,600

8. DIVIDENDS

During the current interim period, a special dividend of HK1 cent per share were declared and paid to the owners of the Company. The aggregate amount of the special dividends declared and paid in the interim period amounted to HK\$24,993,000 (six months ended 30 June 2018: Nil).

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share		
((loss) profit for the period attributable to the owners of the Company)	<u>(92,789)</u>	<u>330,047</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of		
basic (loss) earnings per share	2,493,872	2,559,546
Effect of dilutive potential ordinary shares – share options	<u>–</u>	<u>1,138</u>
Weighted average number of ordinary shares for the purpose of		
diluted (loss) earnings per share	<u>2,493,872</u>	<u>2,560,684</u>

For the six months ended 30 June 2019, the computation of diluted loss per share does not assume the exercise of share options since such assumed exercise would reduce loss per shares of the Company for the period.

For the six months ended 30 June 2018, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options because the exercise prices of those share options were higher than the average market price of the shares of the Company for the period.

10. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods and services 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:

	As at 30 June 2019 <i>HK\$'000</i> (unaudited)	As at 31 December 2018 <i>HK\$'000</i> (audited)
Trade receivables		
0-30 days	90,280	131,229
31-60 days	37,874	30,168
61-90 days	3,709	15,054
91-180 days	14,475	24,846
Over 180 days	48,434	21,769
	194,772	223,066
Less: Accumulated allowances	(25,133)	(24,031)
	169,639	199,035
Notes receivables (Note)		
0-30 days	5,583	25,008
31-60 days	13,725	828
61-90 days	14,041	958
91-180 days	24,206	4,756
Over 180 days	1,830	914
	59,385	32,464
Trade and notes receivables	229,024	231,499

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

11. TRADE AND NOTES PAYABLES

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

	As at 30 June 2019 <i>HK\$'000</i> (unaudited)	As at 31 December 2018 <i>HK\$'000</i> (audited)
Trade payables		
0-30 days	121,282	63,336
31-60 days	6,868	39,466
61-90 days	161	51,477
Over 90 days	40,605	25,172
	<u>168,916</u>	<u>179,451</u>
Notes payables		
0-30 days	—	5,371
	<u>—</u>	<u>5,371</u>
Trade and notes payables	<u><u>168,916</u></u>	<u><u>184,822</u></u>

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to the shareholders of the Company (“Shareholders”) for 1H-2019.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 1H-2019, the global economic environment continued to be harsh. Sino-US trade tensions escalated and it was difficult for the Company to grow its businesses, thus its results for the period plummeted when compared with 1H-2018. Revenue of the Group for 1H-2019 amounted to HK\$517.2 million, 66.2% less than in 1H-2018. Gross profit was HK\$53.3 million, down 57.9% compared with 1H-2018. The drop in revenue and gross profit for 1H-2019 was the result of the disposal of the modules business and change of the original business model to the EMS model. Some suppliers closed down business or experienced capital chain problems due to the feeble market conditions, thus they were unable to provide materials to the Group. Therefore, the Group was unable to deliver some orders on time and that was the reason for revenue falling short of expectation. Moreover, with overseas demand shrinking at the impact of the Sino-US trade conflicts and domestic investment trending conservative, the core businesses of the Group including handsets and IOT terminals, and intelligent manufacturing were affected to various extents.

Handsets and IOT terminals business

In 1H-2019, this business segment recorded revenue of HK\$286.8 million, representing a 33.5% decline year-on-year. Gross profit was HK\$9.4 million, down 82.2% when compared with 1H-2018. Gross profit margin also narrowed year-on-year, by 9 percentage points to 3.3%. Frequent closures among mobile phone producers resulted in bad debts, leading to frequent occurrence of capital chain ruptures among upstream suppliers and some of them were even forced to shut down. As a result, the suppliers of the Group were also greatly affected and the materials scheduled by the Group were unable to be supplied in time which restricted the Group from completing some of the customers’ orders and realizing revenue from those orders. This was the main reason for the decline in revenue of this business segment compared with the same period last year. In addition, the gradually intensifying China-US trade tensions and the expectation of having high tariffs imposed on products sold to the US have had a psychological impact on customers and made them hesitate to place new orders. This further exacerbated the decline in revenue. At the same time, as certain projects currently still in preliminary investment stage either did not push out products in expected amounts or had their production halted due to the market changes, an one-off provision was made in the profit and loss statement for 1H-2019 in relation to the related research and development expenses that had already been capitalised, which explained the significant decrease in gross profit and gross profit margin of this segment for 1H-2019. The one-off provision was HK\$21.1 million. Without this provision, gross profit margin of this segment should be 10.6%.

Looking at market trends, mobile internet and IOT among other telecom technologies are fast maturing, generating new businesses and applications every day. Other than telecom functions, breakthroughs have equipped terminals with new functions in format and design that can pinpoint different usage scenarios. They are also increasingly incorporated into more businesses, translating into yet more functions and services. Non-handset telecom terminals such as wearable devices, smart home or vehicle terminals are developing rapidly and in great diversity. The market remain fragmented but the Group sees ample opportunities. With so many usage scenarios to cater for, most non-handset terminals come in many varieties instead of a few standalone product categories.

The IOT terminals market is becoming more competitive and complex. Apart from traditional terminals brands in existing industries, world-renowned internet platform companies, AI unicorns and the three largest telecom operators in the PRC have actively pushed to tap different niche IOT terminals markets. The competitive landscape in overseas IOT terminals markets is in much the same way as that in the PRC.

Over the past few years, the Group has been focusing this business segment towards IOT/industrial application terminals, a strategy that is in line with market trend, and has reaped the fruit in certain niche areas. IOT and industrial terminals business now accounts for a significant proportion of the segment's revenue and gross profit. The Group designs and produces various intelligent terminals for customers to use in, e.g. scanning, mobile point-of-sale, intercom network terminals, encryption, augmented reality (AR) glasses and smart watches, among others. These products have earned the patronage of high-end customers in Europe, the US and Japan. In 1H-2019, the Group commenced R&D of new wearable devices and smart hardware including smart POS, AR glasses and smart bracelets. Production is expected to start and revenue is expected to be recorded in the second half of 2019.

In respect of market trends and development opportunities in the future, the gradual issuance of 5G licenses in the PRC and overseas will keep fuelling the handset replacement trend in the next few years, and the fast maturing supply chain of the consumer and the IOT terminals market will facilitate the launch and development of VR/AR, internet of vehicles and HD video transmission for various industrial application scenarios. Also, demand is growing for new forms and functions of IOT and industrial application terminals, and that points to potential business opportunities for the Group's handsets and IOT terminals business segment. As such, the Group will continue to accelerate the reform of supply chain to heed the characteristics of industries using IOT terminals, and actively develop a number of suppliers for multi-variety and small-batch orders to ensure timely delivery of materials. In addition to serving existing quality customers well, the Group will keep finding new customers in the IOT industry, at home and overseas.

Despite the fierce competition in the handset and IOT terminals market, the opportunities are unlimited, and they are still the focus of the Group's businesses. With more than ten years of experience in this industry, and with the Group's ability to make effective adjustment to its operational strategy, this business segment has strong potential in sustainable growth and development and it will be able to generate stable income for the Group.

EMS business

This business segment achieved revenue of HK\$51.2 million in 1H-2019, a decrease of 89.8% when compared with 1H-2018. Gross profit was down 91.8% year-on-year to HK\$2.1 million. In the first quarter of 2018, after the Group had completed the disposal of wireless communication modules business to Shenzhen Sunsea Communication Technology Co., Ltd. (“Sunsea”), the segment switched from the original brand manufacturer (“OBM”) operation model to the EMS model. According to international accounting standards, different standards apply in recognising revenue of the two business models. In 1H-2018, the Group mainly sold finished wireless communication modules to customers and the revenue included material costs, processing fees and profit margin of the finished products. Subsequently, the business changed to delivering finished products with some of the materials for production coming from the customers concerned, and in the final stage of the transition, all materials would be provided by the customers and the Group would only charge manufacturing fees. In 1H-2019, the Group still delivered wireless communication modules to customers, but as the revenue made only included the fees for and profit margin of processing, the amount of revenue saw a substantial drop relative to 1H-2018. As such, gross profit of the segment was squeezed in the same extent as the segmental revenue, while gross profit margin stayed about the same and was on par with the average of the EMS business market in general.

In the future, while continuing to focus on providing EMS services of wireless communication modules to Sunsea, the Group will also strive to attract new customers and process new products. Currently, it is in negotiations with internationally renowned companies in respect of its EMS services with good progress having been made. If the negotiations come to fruition and the Group’s service becomes a part of the customer’s supply system, revenue would be recorded by the EMS business segment in the fourth quarter of 2019.

Armed with a strong technical background, sophisticated technology and quality management system, continuous development of the IOT industry has presented the Group with new business segment opportunities. It can also, via bringing in, modifying and upgrading automated and intelligent technology production, improve its efficiency and quality. This is the strongest competitive strength of the Group recognised by many top level clients in the PRC and overseas, setting it apart from other providers of general processing service in the market. The Group’s EMS processing capacity now covers areas of application including high-end luxury handset, industrial AR glasses, smart wearing, scanning terminals, and monitoring tablet. Hence, industrial products and automobile electronics will be the key business development directions of the Group in the future. The Group believes it will be able to improve production efficiency and see its EMS business segment sustain steady growth.

IOT system and O2O business

This business segment still incurred a loss in 1H-2019. With some of the businesses divested, both revenue and expenses of the segment decreased to some extent and its gross profit margin dropped markedly. The business segment is in the “traditional industry + Internet” business realm. The original intention of the Group is to give full play to its internet technology advantages in transforming the traditional vending machine business. It is intended that the IOT cloud platform of the Group would provide online services to vending machine operators, while a subsidiary company would provide offline services such as wholesale and distribution to vending machine operators. Offline business has been a major revenue contributor of the segment, but the results of efforts made to grow the business over the past few years have proven that it is not easy to make a profit from offline business.

Nonetheless, the Group is still committed to the business and has continued to make some adjustments to its direction over the past two years. At present, we are exploring other more promising offline service focusing on markets such as the internet of vehicles.

Due to the Group’s years of experience in the technology of IOT terminals and a large number of mature products and high-quality customers, the follow-up IOT system business will strengthen the cooperation with the terminals sector to provide customers with “cloud + terminal” one-stop solution, including the provision of operational services for the system, which will be the primary market of IOT system business in the future.

Intelligent manufacturing business

Revenue of this business segment in 1H-2019 amounted to HK\$46.4 million, down 48.6% against 1H-2018. Gross profit declined by 33.1% year-on-year to HK\$14.4 million, whereas gross profit margin swelled when compared with 1H-2018. The increase in gross profit margin is due to the decentralization of orders, with the majority of orders being in small batches.

During the reporting period, the segment derived revenue and profit mainly from the industrial robot business department’s automated testing system product line. The product line, having been in the market for years and meeting stringent requirements, has kept maturing and now holds a certain share of the market. Major players in the mobile phone manufacturing industry are all using the Group’s products. However, the handset testing equipment market is close to saturation, hence there is not much new demand. Furthermore, with the weak global economy, escalation of Sino-US trade friction and the uncertain outlook of the real manufacturing sector, potential customers have slowed down or reduced their investments. Thus, during the reporting period, revenue from the product line declined notably when compared with the same period last year. The Group has been actively developing various industrial robots for other industries, but those products are still mainly at the technological R&D and market development stage. Some of the products have been launched but have yet to reach the expected business scale, and therefore they have yet to become the new hit products of the Group in the market.

For the reporting period, contributions from the Artificial Intelligence (AI) and machine vision product lines and industrial IOT product line still accounted for a relatively small proportion of the segmental revenue, but the improvement was apparent against the last corresponding period. In view of the Group's leading technological advantages in this field, the Group believes that its AI and visual product lines and industrial IOT product lines will become growth drivers of the business segment in the future.

Looking ahead, although overall investment has become more conservative because of the uncertain external environment, the demand from manufacturers to transform their production by using machines to replace human labour remains strong.

In the future, the Group will strive to maintain its competitive advantages, develop new products and new markets, and enlarge its market share. The gradual commercial rollout of 5G has brought new market opportunities, such as the growing demand for replacement of testing equipment. The Group will grasp this opportunity quickly by capitalising on its technological advantages in product R&D, the good word-of-mouth it has built up and the trust it has earned from existing customers. The Group believes its AI and machine vision product lines and IOT product line, which have been nurtured by the Group for the past few years, will bring to it increasingly impressive returns.

Properties development

As at 30 June 2019, “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 1,836 units have been sold.

As at 30 June 2019, “Seven River in Sweet” (七里香溪), in Taizhou City, the PRC, has a total of 748 residential units, 9 shops and 22 commercial units completed in all its two phases, of which 747 residential units, 7 shops and 22 commercial units have been sold and delivered to the buyers.

A substantial amount of the above properties was sold and delivered to the buyers in 1H-2018 and only a small amount of properties remaining was sold and delivered in 1H-2019, resulting in a huge decrease in revenue to HK\$5.6 million (2018: HK\$330.9 million) with a gross profit margin of 23.9% (2018:-4.1%).

Properties management

As at 30 June 2019, the revenue of property management was mainly derived from the leasing of SIM Technology Building Block A and Block B in Shanghai and factory units in Shanghai and Shenyang. A total area of approximately 43,000 square meters was leased out. To utilize our resources more effectively, the Group is developing the property management business by leasing out the spare space at its factories and other buildings.

The revenue of properties management for 1H-2019 amounted to HK\$21.0 million (2018: HK\$19.0 million) with a gross profit margin of 94.5% (2018: 91.8%).

Prospects

As anticipated, 2019 has been ridden with uncertainties and might just be the most difficult year in the Group's development history. A relatively large loss was recorded for 1H-2019, and the Group might continue to incur a loss in the second half of 2019.

The Group strives to transform from its business handset original design manufacturing ("ODM") to IOT industry terminals and from a highly centralized business market to a fragmented business market. So far, there has not been a market that can match the size of the handset ODM market, nor can we predict when and in what form the next such large market will appear. At present, the Group's strategy is to pay extensive attention, make arrangements, and actively participate in making certain technical preparations and become involved in exploratory projects so that it will not miss out when there is explosive growth in any segment of the IOT industry.

The management believes, despite that the Group is facing a very difficult operating environment and some of its existing businesses are reaching a bottleneck, the Group's quality assets, outstanding talent pool, abundant reserve of advanced technologies, mature corporate culture and solid groundwork, will no doubt allow the Group to brave the difficulties ahead and stay at the forefront of the industry to capture new opportunities.

FINANCIAL REVIEW

For 1H-2019, the revenue of the Group was HK\$517.2 million (2018: HK\$1,528.6 million), in which the revenue from handsets and IOT terminals business, EMS business, IOT system and O2O business and intelligent manufacturing business (together, "core business") decreased by 58.4% to HK\$490.6 million (2018: 1,178.6 million) as compared with that of 1H-2018. The revenue from the sale of residential properties and property management (together "non-core business") decreased by 92.4% to HK\$26.6 million in 1H-2019 as compared with that in 1H-2018 (2018: HK\$350.0 million).

The gross profit for 1H-2019 for core business of the Group decreased period-to-period by 73.9% to HK\$32.1 million (2018: HK\$122.9 million). The gross profit margin for core business decreased to 6.6% (2018: 10.4%). The overall gross profit margin of the Group for 1H-2019 increased to 10.3% (2018: 8.3%).

As a result of the decrease in revenue in 1H-2019, an absence of gain on disposal of wireless communication modules business which was completed in 1H-2018, an one-off provision in relation to related research and development expenses already capitalise and a provision on the entrusted loan receivable, the Group achieved a loss attributable to owners of the Company of HK\$92.8 million (2018: profit attributable to the owners of the Company of HK\$330.0 million). The basic loss per share for 1H-2019 was HK3.7 cents (2018: the basic earnings per share was HK12.9 cents).

Segment results of core business

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	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	287	10	3.3	432	53	12.3
EMS business	51	2	4.1	501	26	5.2
IOT system and O2O business	106	6	5.8	156	23	14.4
Intelligent manufacturing business	46	14	31.0	90	21	23.8
Total	490	32	6.6	1,179	123	10.4

Handsets and IOT terminals business

The revenue of handsets and IOT terminals business for 1H-2019 decreased by 33.5% to HK\$286.8 million (2018: HK\$431.3 million) as compared to that of 1H-2018. Fierce competition and frequent closures among mobile phone producers caused great damage to the supply chain of mobile phones. Frequent occurrence of capital chain ruptures among suppliers led to delays in deliveries and some suppliers were even forced to shut down. The Group was therefore restricted from completing some of the orders and realizing revenue from those orders. This was the main reason for the decline in revenue of this business segment compared with the same period last year. In addition, the gradually intensifying Sino-US trade tensions and the possibility of having high tariffs imposed on products sold to the US have had a psychological impact on customers and made them hesitate to place orders. This further exacerbated the decline in revenue. The gross profit margin for this segment decreased to 3.3% in 1H-2019 (2018: 12.3%) which was mainly due to the one-off provision in relation to related research and development expenses already capitalised. The one-off provision was HK\$21.1 million. Without this provision, gross profit margin of this segment should be 10.6%. The revenue of ODM business contributed to approximately 88% of the revenue of this segment in 1H-2019 (2018: 88%).

EMS business

After the completion of disposal of wireless communication modules business in 1H-2019, the business nature of this segment was changed from OBM to EMS provider and the Group no longer bears the R&D and sales expenses of the modules business. However, the gross profit of EMS was lower than the OBM. In 1H-2019, the revenue of this segment decreased year-on-year by 89.8% and the gross profit margin decreased year-on-year to 4.1% (2018: 5.2%).

IOT system and O2O business

During 1H-2019, with some of the businesses divested, both revenue and expenses of the segment decreased to some extent and its gross profit margin dropped markedly. The revenue of this segment recorded was HK\$106.2 million (2018: HK\$156.0 million) and the gross profit margin decreased to 5.8% (2018: 14.4%).

Intelligent manufacturing business

During 1H-2019, due to the decentralization of orders, with the majority of orders being in small batches, the gross profit margin increased to 31.0% in 1H-2019 (2018: 23.8%) although the revenue of this segment decreased to HK\$46.4 million (2018: HK\$90.3 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2019, the Group had bank balances and cash of HK\$705.8 million (31 December 2018: HK\$647.8 million), of which 60.2% was held in US dollars, 39.7% was held in Renminbi and the remaining balance was held in Hong Kong dollars. As at 30 June 2019, the Group also had pledged bank deposits of HK\$21.1 million (31 December 2018: HK\$57.6 million) in Renminbi for the purpose of the Group's borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including bank deposits, property, plant and equipment, investment properties and land use rights) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$107.1 million as at 30 June 2019 (31 December 2018: HK\$83.9 million), all of which HK\$58.3 million was denominated in Renminbi and HK\$48.8 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 inventory, trade and notes receivables, trade and notes payables of the Group for the core business are presented below:

	30 June 2019 Days	31 December 2018 Days
Inventory turnover period	149	121
Trade and notes receivables turnover period	82	55
Trade and notes payables turnover period	89	58

In 1H-2019, the decrease in cost of sales was more than the decrease in average inventory balance. The inventory turnover period of 1H-2019 thus increased significantly as compared to that of year 2018.

Due to the significant decrease in revenue of 1H-2019, the overall trade and notes receivables turnover period increased for 1H-2019 as compared to that of year 2018.

The trade and notes payables turnover period increased for 1H-2019 as compared to that of year 2018 due to the significant decrease in purchase for 1H-2019.

As at 30 June 2019, the current ratio, calculated as current assets over current liabilities, was 2.7 times (31 December 2018: 3.1 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 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 mainly held under fixed and savings deposits in reputable banks to earn interest income.

Certain sales and purchases of inventories of the Group are denominated in US dollars. Furthermore, certain trade receivables, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. During 1H-2019, the Group did not use any financial instrument for hedging purpose but it will consider entering into non-deliverable foreign exchange forward contracts to eliminate the foreign exchange exposures in US dollars when necessary.

Capital structure

As at 30 June 2019, the Company had 2,458,328,300 ordinary shares of HK\$0.10 each in issue.

No shares of the Company have been issued during 1H-2019.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2019 and 1H-2018:

	1H-2019 HK\$'M	1H-2018 HK\$'M
Net cash from operating activities	205.9	150.3
Capital expenditure	(20.8)	(31.1)
Development costs	(63.1)	(108.3)
Net increase (decrease) in bank borrowings	15.2	(22.6)
Net decrease in other liabilities	(30.1)	(86.1)
Net cash inflow from disposal of subsidiaries	–	407.5
Cash transferred to non-controlling interest upon share reduction in registered capital of a subsidiary that does not result in losing control	(45.4)	–
Dividend paid	(25.0)	(143.3)
Interest paid	(0.4)	(2.0)
Repurchase of shares	(16.2)	–
Others	1.5	6.2
Net increase in cash and cash equivalents (including pledged bank deposits)	21.6	170.6

GEARING RATIO

As at 30 June 2019, the total assets of the Group was HK\$2,872.8 million (31 December 2018: HK\$2,972.0 million) and the bank borrowings were HK\$107.1 million (31 December 2018: HK\$83.9 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 3.7% (31 December 2018: 2.8%).

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 the 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

During 1H-2019, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT

The Group did not have any plans for material investment or capital assets during 1H-2019.

SIGNIFICANT INVESTMENT

As at 30 June 2019, the available-for-sale investment represented the Group's investment in 0.79% of the shares in Shanghai Guao Electronic Technology Co., Ltd ("Shanghai Guao") ("Investment") and the Investment cost was approximately HK\$4.6 million. In 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 30 June 2019 was approximately HK\$15.2 million (31 December 2018: HK\$38.6 million). Shanghai Guao specializes in 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 2018 issued in April 2019, that Shanghai Guao will focus on 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 also develop projects in relation to automated cash treatment.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2019, the Group had approximately 1,660 (31 December 2018: 1,760) employees. The Group operates a mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC. The Group has a comprehensive training system in place that establishes a network-based career path for employees, including position and ability management, skills enhancement programme, various training opportunities, online learning programme for staff, internal promotion system, key employees development programme, succession plans for key positions and leadership development programme. 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2019, the Company has repurchased 50,082,000 shares of the Company on the Stock Exchange and the shares repurchased have been cancelled subsequently. Details of the repurchase were as follows:

Month of repurchase	Number of shares repurchased '000	Price per share		Aggregate price paid (inclusive of related expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2019	9,148	0.315	0.310	2,883
May 2019	30,386	0.335	0.295	9,706
June 2019	10,548	0.345	0.325	3,606
	<u>50,082</u>			<u>16,195</u>

Other than the shares repurchased by the Company disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during 1H-2019.

EVENT AFTER THE REPORTING PERIOD

There have been no significant events of the Group occurred since the end of 1H-2019.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for 1H-2019.

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 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 6 June 2019 (“2019 AGM”), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to an unexpected business engagement. Mr Liu Jun, an executive Director and the chief executive officer of the Group, chaired the 2019 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 2019 AGM to answer questions from Shareholders.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that each of them has fully complied with the required standard as set out in the Model Code during 1H-2019.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated interim financial information of the Group for 1H-2019. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2019 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu. The Audit Committee comprises all three independent non-executive Directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement has been published on the respective websites of the Company (www.sim.com) and the Stock Exchange (www.hkexnews.hk). The 2019 interim report will be dispatched to the Shareholders and available on the above websites in due course.

APPRECIATION

The Board would like to thank our Shareholders, customers, suppliers, bankers and professional advisers for their support of the Group and to extend our appreciation to all our staff for their dedication and contributions throughout the reporting period.

DIRECTORS

As at the date of this announcement, the executive directors of the Company are Ms Yeung Man Ying, Mr Wong Cho Tung, Ms Tang Rongrong and Mr Liu Jun, and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Wang Tianmiao and Mr Wu Zhe.

By Order of the Board
SIM Technology Group Limited
Wong Cho Tung
Executive 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 August 2019

* For identification purposes only