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SIM Technology

SIM TECHNOLOGY GROUP LIMITED
晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 2000)

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

For the reasons explained below under "REVIEW OF UNAUDITED ANNUAL RESULTS", the auditing process for the annual results of SIM Technology Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") has not been completed. In the meantime, the board ("**Board**") of directors ("**Directors**") of the Company hereby announces the unaudited consolidated results of the Group for the year ended 31 December 2019 ("**Year**") together with the comparative figures for the corresponding period in 2018 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Audited)
Revenue	*3*	**1,281,505**	2,312,230
Cost of sales and services		**(1,121,865)**	(2,135,339)
Gross profit		**159,640**	176,891
Other income	*5*	**36,206**	36,084
Other expenses		**–**	(90,499)
Impairment losses under expected credit loss model, net of reversal		**(31,084)**	(13,287)
Other gains and losses	*6*	**2,659**	483,821
Research and development expenses		**(79,660)**	(52,240)
Selling and distribution costs		**(67,453)**	(114,450)
Administrative expenses		**(106,520)**	(121,201)
Share of results of associates		**(2,003)**	770
Finance costs	*7*	**(3,282)**	(6,243)
(Loss) profit before taxation		**(91,497)**	299,646
Taxation	*8*	**16,636**	(84,607)
(Loss) profit for the year	*9*	**(74,861)**	215,039
(Loss) profit for the year attributable to:			
Owners of the Company		**(76,938)**	238,012
Non-controlling interests		**2,077**	(22,973)
		(74,861)	215,039
(Loss) earnings per share (HK cents)	*11*		
Basic		**(3.11)**	9.33
Diluted		**(3.11)**	9.33

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
(Loss) profit for the year	**(74,861)**	215,039
Other comprehensive income (expense)		
Items that may not be subsequently reclassified to profit or loss during the year:		
Surplus on transfer of right-of-use assets, land use rights, property, plant and equipment and properties held for sale to investment properties at fair value	**84,486**	48,974
Fair value gain (loss) on investment in equity instrument at fair value through other comprehensive income	**15,609**	(28,561)
Deferred tax relating to items that will not be reclassified to profit or loss	**(25,024)**	(5,104)
Exchange difference arising on translation to presentation currency	**(13,308)**	(59,644)
Other comprehensive income (expense)	**61,763**	(44,335)
Total comprehensive (expense) income for the year	**(13,098)**	170,704
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(14,663)**	198,170
Non-controlling interests	**1,565**	(27,466)
	(13,098)	170,704

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
Non-current assets			
Investment properties		**608,388**	479,282
Property, plant and equipment		**267,712**	306,179
Right-of-use assets		**55,098**	–
Land use rights		**–**	68,104
Goodwill		**–**	–
Intangible assets		**116,704**	147,950
Deferred tax assets		**44,092**	44,606
Finance lease receivables		**188**	328
Interests in associates		**6,647**	3,044
Equity instruments at fair value through other comprehensive income ("FVTOCI")		**669**	39,149
Other receivables		**7,412**	8,793
Consideration receivables		**4,043**	4,796
		1,110,953	1,102,231
Current assets			
Inventories		**250,771**	372,846
Finance lease receivables		**169**	432
Properties held for sale		**12,711**	41,683
Trade and notes receivables	*12*	**282,462**	231,499
Contract assets		**11,201**	36,353
Other receivables, deposits and prepayments		**230,478**	423,913
Consideration receivables		**1,857**	4,601
Amount due from an associate		**–**	4,400
Amounts due from non-controlling shareholders of subsidiaries		**4,496**	4,496
Financial assets at fair value through profit or loss ("FVTPL")		**22,512**	18,278
Entrusted loan receivable		**–**	25,946
Pledged bank deposits		**31,226**	57,557
Short-term bank deposit		**296,380**	–
Bank balances and cash		**611,714**	647,776
		1,755,977	1,869,780

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Current liabilities			
Trade and notes payables	*13*	**224,322**	184,822
Contract liabilities		**202,255**	219,345
Other payables, deposits received and accruals		**54,273**	50,498
Other liabilities		**–**	29,692
Bank borrowings		**77,936**	83,887
Lease liabilities		**6,319**	–
Tax payable		**40,224**	43,931
		605,329	612,175
Net current assets		**1,150,648**	1,257,605
Total assets less current liabilities		**2,261,601**	2,359,836
Capital and reserves			
Share capital		**243,072**	252,025
Reserves		**1,849,269**	1,907,009
Equity attributable to owners of the Company		**2,092,341**	2,159,034
Non-controlling interests		**18,330**	63,405
Total equity		**2,110,671**	2,222,439
Non-current liabilities			
Lease liabilities		**2,865**	–
Deferred tax liabilities		**112,413**	98,200
Deferred income		**35,652**	39,197
		150,930	137,397
		2,261,601	2,359,836

NOTES TO THE UNAUDITED 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, electronics manufacturing services (EMS) business, carrying out 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. 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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

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

IFRS 16	Leases
IFRIC-Int 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 IFRSs 2015-2017 Cycle

Except as described below, the application of the new and 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.

2.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretation.

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-Int 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.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. 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 applications; 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.

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 by the relevant group entities is 5.1% per annum.

	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 leases 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 for own use as at 1 January 2019 comprises the following:

	At 1 January 2019 *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 consolidated statement of financial position at 1 January 2019. However, effective 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 consolidated statement of financial position at 1 January 2019.

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

	Carrying amount previously reported at 31 December 2018	Adjustment	Carrying amount under IFRS 16 at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Non-current asset			
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 liablities			
Lease liabilities *(Note)*	–	7,041	7,041

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 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 applicaiton of IFRS16 has no material impact on the retained profits.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[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 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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 2020.

5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;

- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	Handsets and IOT terminals business	Electronics manufacturing services business	IOT system and O2O business	Intelligent manufacturing business	Property development	Property management
	For the year ended 31 December 2019 (unaudited)					
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Types of goods or services						
Sale of handsets and IOT terminals	**749,670**	**–**	**–**	**–**	**–**	**–**
Electronic manufacturing services	**–**	**92,960**	**–**	**–**	**–**	**–**
Sale of goods to vending machine customers and franchisee	**–**	**–**	**233,700**	**–**	**–**	**–**
Equipment finance lease service	**–**	**–**	**86**	**–**	**–**	**–**
Procurement agency service	**–**	**–**	**26,703**	**–**	**–**	**–**
Sale of intelligent manufacturing products	**–**	**–**	**–**	**126,487**	**–**	**–**
Sale of properties	**–**	**–**	**–**	**–**	**8,823**	**–**
Property rental	**–**	**–**	**–**	**–**	**–**	**43,076**
Total	**749,670**	**92,960**	**260,489**	**126,487**	**8,823**	**43,076**
Timing of revenue recognition						
At a point in time	**749,670**	**–**	**260,403**	**126,487**	**8,823**	**N/A**
Over time	**–**	**92,960**	**–**	**–**	**–**	**N/A**
Total	**749,670**	**92,960**	**260,403**	**126,487**	**8,823**	**N/A**

Segments	Handsets and IOT terminals business	Electronics manufacturing services business	IOT system and O2O business	Intelligent manufacturing business	Property development	Property management
	For the year ended 31 December 2018 (audited)					
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Types of goods or services						
Sale of handsets and IOT terminals	829,868	–	–	–	–	–
Own-branded products manufacturing	–	154,112	–	–	–	–
Electronic manufacturing services	–	407,507	–	–	–	–
Sale of goods to vending machine customers and franchisee	–	–	284,527	–	–	–
Equipment finance lease service	–	–	294	–	–	–
Procurement agency service	–	–	34,101	–	–	–
Sale of intelligent manufacturing products	–	–	–	142,465	–	–
Sale of properties	–	–	–	–	409,389	–
Property rental	–	–	–	–	–	49,967
Total	829,868	561,619	318,922	142,465	409,389	49,967
Timing of revenue recognition						
At a point in time	829,868	499,241	318,628	142,465	409,389	N/A
Over time	–	62,378	–	–	–	N/A
Total	829,868	561,619	318,628	142,465	409,389	N/A

Geographical markets

	For the year ended 31 December 2019 (unaudited)					
	Handsets and IOT terminals business	**Electronics manufacturing services business**	**IOT system and O2O business**	**Intelligent manufacturing business**	**Property development**	**Property management**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
The PRC	**282,318**	**92,960**	**260,489**	**126,487**	**8,823**	**43,076**
Europe	**135,146**	**–**	**–**	**–**	**–**	**–**
United States	**128,185**	**–**	**–**	**–**	**–**	**–**
Hong Kong	**5,642**	**–**	**–**	**–**	**–**	**–**
Other Asian countries	**198,379**	**–**	**–**	**–**	**–**	**–**
	749,670	**92,960**	**260,489**	**126,487**	**8,823**	**43,076**

	For the year ended 31 December 2018 (audited)					
	Handsets and IOT terminals business	Electronics manufacturing services business	IOT system and O2O business	Intelligent manufacturing business	Property development	Property management
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	577,563	458,290	318,922	142,465	409,389	49,967
Europe	68,604	–	–	–	–	–
United States	100,343	–	–	–	–	–
Hong Kong	9,470	103,329	–	–	–	–
Other Asian countries	73,888	–	–	–	–	–
	829,868	561,619	318,922	142,465	409,389	49,967

(ii) Performance obligations for contracts with customers

Sale of handsets and IOT terminals, own-branded products manufacturing, sale of goods to vending machine customers and franchisee and sale of intelligent manufacturing products

For the sale of handsets and IOT terminals, own-branded products manufacturing, sale of goods to vending machine customers and franchisee and sale of intelligent manufacturing products, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following the delivery, the customer has full discretion over the manner of usage, distribution and price to sell the goods, and has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0-90 days upon delivery.

Electronics manufacturing services

The electronics manufacturing services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced, except for the sale of certain materials as owned by the Group to the customer for use in the electronics manufacturing services, which is recognised at a point in time upon the transfer of control of the goods to the customer during the year. The normal credit term is 0-15 days.

Procurement agency service

In the provision of procurement agency service, revenue is recognised when the agency service has been completed, being when the goods have been shipped to the customer's specific location (delivery). The normal credit term is 0-90 days.

Sale of properties

Revenue from sale of properties is recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sale of handsets and IOT terminals, own-branded products manufacturing, electronics manufacturing services, sale of goods to vending machine customers and franchisee, procurement agency service, sale of intelligent manufacturing products and sale of properties are for periods of one year or less.

(iv) Leases

	Year ended 31 December 2019 *HK\$'000* **(Unaudited)**
For operating lease:	
Lease payments that are fixed	**43,076**
For finance leases:	
Finance income on the net investment in the lease	**86**
Total revenue arising from leases	**43,162**

For the year ended 31 December 2019, the Group recognised approximately HK$42,023,000 selling profit or loss, being the difference between revenue and the cost of sales, as a manufacturer/dealer lessor.

	Year ended 31 December 2018 *HK\$'000* (Audited)
Finance lease income – equipment	294
Operating lease income – property	49,967
Total revenue arising from leases	50,261

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 or services delivered or provided.

During the years ended 31 December 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.

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.

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

For the year ended 31 December 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	**749,670**	**92,960**	**260,489**	**126,487**	**8,823**	**43,076**	**1,281,505**
Segment (loss) profit	**(50,867)**	**1,448**	**(13,211)**	**(15,476)**	**(2,928)**	**37,959**	**(43,075)**
Other income and other gains and losses							**(27,540)**
Share of results of associates							**(2,003)**
Corporate expenses							**(15,597)**
Finance costs							**(3,282)**
Loss before taxation							**(91,497)**

For the year ended 31 December 2018 (audited)

	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	829,868	561,619	318,922	142,465	409,389	49,967	2,312,230
Segment (loss) profit	(4,922)	401,048	(18,765)	983	(27,402)	30,318	381,260
Other income and other gains and losses							(51,619)
Share of results of associates							770
Corporate expenses							(24,522)
Finance costs							(6,243)
Profit before taxation							299,646

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 interest income, unallocated exchange gain or loss, loss on disposal of property, plant and equipment, fair value change on financial assets at FVTPL, certain other income, corporate expenses, share of results of associates, finance costs and taxation (2018: without allocation of 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 derivate 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.

Segment assets and liabilities

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

At 31 December 2019 (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*	Consolidated *HK$'000*
Segment assets	657,760	174,595	108,110	174,523	17,634	631,693	1,764,315
Property, plant and equipment							54,382
Right-of-use assets							24,945
Deferred tax assets							44,092
Entrusted loan receivables							–
Interests in associates							6,647
Equity instruments at FVTOCI							669
Financial assets at FVTPL							22,512
Amounts due from non-controlling shareholders of subsidiaries							4,496
Amount due from an associate							–
Other receivables, deposits and prepayments							5,552
Pledged bank deposits							31,226
Short-term bank deposits							296,380
Bank balances and cash							611,714
Consolidated assets							2,866,930
Segment liabilities	368,890	39,717	17,022	66,156	9,791	7,026	508,602
Other payables and accruals							17,084
Bank borrowings							77,936
Tax payable							40,224
Deferred tax liabilities							112,413
Consolidated liabilities							756,259

At 31 December 2018 (audited)

	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*	Consolidated *HK$'000*
Segment assets	703,120	395,041	154,458	179,853	46,633	511,633	1,990,738
Property, plant and equipment							92,142
Land use rights							41,123
Deferred tax assets							44,606
Entrusted loan receivables							25,946
Interests in associates							3,044
Equity instruments at FVTOCI							39,149
Financial assets at FVTPL							18,278
Amounts due from non-controlling shareholders of subsidiaries							4,496
Amount due from an associate							4,400
Other receivables, deposits and prepayments							2,756
Pledged bank deposits							57,557
Bank balances and cash							647,776
Consolidated assets							2,972,011
Segment liabilities	336,631	79,927	22,067	44,252	25,538	7,517	515,932
Other payables and accruals							7,622
Bank borrowings							83,887
Tax payable							43,931
Deferred tax liabilities							98,200
Consolidated liabilities							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, pledged bank deposits, short-term bank deposits, bank balances and cash, entrusted loan receivables, interests in associates, equity instruments at FVTOCI, financial assets at FVTPL, consideration receivable, deferred tax assets, certain other receivables, deposits and prepayments, amounts due from non-controlling shareholders of subsidiaries and an associate (2018: certain property, plant and equipment, certain land use rights, pledged bank deposits, bank balances and cash, entrusted loan receivables, interests in associates, equity instruments at FVTOCI, financial assets at FVTPL, consideration receivable, deferred tax assets, certain other receivables, deposits and prepayments and amounts due from non-controlling shareholders of subsidiaries and an associate). 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, property development and property management, the remaining liabilities jointly consumed by reportable and operating segments are allocated between handsets and IOT terminals and EMS business and corporate liabilities. Corporate liabilities include certain other payables, accruals, tax payable, bank borrowings and deferred tax liabilities (2018: include certain other payables, accruals, tax payable, bank borrowings and deferred tax liabilities).

Other segment information

For the year ended 31 December 2019 (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*	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	8,596	21,026	167	2,058	–	–	–	31,847
Additions of intangible assets	58,925	–	–	45,718	–	–	–	104,643
Depreciation of property, plant and equipment	18,482	9,009	1,424	2,431	8	1,571	4,543	37,468
Amortisation of intangible assets	59,106	–	120	53,931	–	–	–	113,157
Depreciation of right-of-use assets	4,012	622	3,669	1,534	–	173	1,167	11,177
Impairment losses on goodwill	3,706	–	–	–	–	–	–	3,706
Impairment losses on property, plant and equipment	1,315	–	–	–	–	–	–	1,315
Impairment losses on trade receivables recognised in profit or loss	1,039	–	–	3,758	–	–	–	4,797
Impairment losses on entrusted loan receivable recognised in profit or loss	–	–	–	–	–	–	(26,287)	(26,287)
Allowance of inventories	8,075	–	–	–	–	–	–	8,075
Loss (gain) on disposal of property, plant and equipment	394	(18)	(4)	35	45	–	(12)	440
Change in fair value of investment properties	–	–	–	–	–	12,779	–	12,779

For the year ended 31 December 2018 (audited)

	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*	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	31,219	8,990	7,515	766	–	–	28	48,518
Additions of intangible assets	130,933	8,493	85	56,633	–	–	–	196,144
Depreciation of property, plant and equipment	21,829	10,941	3,798	2,389	37	1,798	7,000	47,792
Amortisation of intangible assets	105,814	8,978	1,273	42,088	–	–	–	158,153
Amortisation of land use rights	496	707	116	55	–	223	1,332	2,929
Reversal of impairment losses on trade receivables recognised in profit or loss	(1,098)	–	–	–	–	–	–	(1,098)
Impairment losses on entrusted loan receivables recognised in profit or loss	–	–	–	–	–	–	8,314	8,314
Impairment losses on other receivables recognised in profit or loss	–	–	–	–	–	–	3,615	3,615
Impairment losses on consideration receivables recognised in profit or loss	–	–	–	–	–	–	2,456	2,456
Allowance of inventories	10,547	–	–	6,660	–	–	–	17,207
Write-off of inventories	–	71,022	–	–	–	–	–	71,022
Loss (gain) on disposal of property, plant and equipment	2,334	131	19	8	(145)	–	5	2,352
Change in fair value of investment properties	–	–	–	–	–	7,665	–	7,665

Geographical information

The Group's operations are located the PRC (country of domicile), Europe, United States, Hong Kong and other Asian counties.

Information about the Group's revenue from continuing operations from external customers is presented based on the location from which the revenue is generated. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended		Non-current assets Year ended	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
The PRC	**814,153**	1,956,596	**931,198**	853,565
Europe	**135,146**	68,604	**–**	–
United States	**128,185**	100,343	**–**	–
Hong Kong	**5,642**	112,799	**–**	–
Other Asian countries	**198,379**	73,888	**–**	–
	1,281,505	2,312,230	**931,198**	853,565

Note:

Non-current assets excluded goodwill, intangible assets, deferred tax assets, finance lease receivables, interests in associates, equity instruments at FVTOCI, other receivables and consideration receivables.

5. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Refund of Value Added Tax ("VAT")	**5,614**	8,478
Government grants	**13,134**	19,933
Interest income earned on bank balances	**16,918**	6,408
Interest income earned on consideration and other receivables	**540**	–
Interest income earned on entrusted loan receivables	**–**	907
Dividend income from equity instruments at FVTOCI	**–**	216
Dividend income from financial assets of FVTPL	**–**	142
	36,206	36,084

6. OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Impairment losses:		
– Goodwill	**(3,706)**	–
– Property, plant and equipment	**(1,315)**	–
Write-off of amount due from an associate	**(4,400)**	–
Loss on disposal of property, plant and equipment	**(440)**	(2,352)
Gain on write-off of right-of-use assets	**13**	–
Net foreign exchange loss	**(13,931)**	(46,156)
Changes in fair values of investment properties	**12,779**	7,665
Net gain on disposal of subsidiaries	**–**	519,135
Fair value change on financial assets at FVTPL	**4,234**	(5,486)
Gain on disposal of an associate	**1,660**	–
Others	**7,765**	11,015
	2,659	483,821

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Interests on bank borrowings	**2,636**	6,243
Interests on lease liabilities	**646**	–
	3,282	6,243

8. TAXATION

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
PRC Enterprise Income Tax ("EIT")	**(13,243)**	(83,753)
Land appreciation tax in the PRC	**(354)**	(7,858)
Overprovisions on PRC LAT in previous years	**20,808**	9,834
	7,211	(81,777)
Deferred tax income (expense) for current year	**9,425**	(2,830)
Taxation for the year	**16,636**	(84,607)

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. (LOSS) PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Profit for the year is arrived at after charging (crediting):		
Auditor's remuneration	**2,300**	2,200
Amortisation of intangible assets (included in cost of sales and services)	**113,157**	158,153
Less: Amount capitalised in development costs	**(830)**	(1,787)
Less: Amount capitalised in inventories	**(112,327)**	(156,366)
	–	–
Impairment loss recognized in respect of intangible assets (included in cost of sales and services)	**21,072**	–
Amortisation of land use rights	**–**	2,929
Depreciation of property, plant and equipment	**37,468**	47,792
Less: Amount capitalised in development costs	**(3,430)**	(5,060)
Less: Amount capitalised in inventories	**(27,484)**	(28,427)
	6,554	14,305
Depreciation of right-of-use assets	**11,176**	–
Allowance of inventories (included in cost of sales and services)	**8,075**	17,207
Write-off of inventories (included in other expenses)	**–**	71,022
Costs of inventories recognised as an expense (included in cost of sales and services)	**1,026,564**	1,678,326
Costs of properties sold (included in cost of sales and services)	**6,709**	430,739
Costs of manufacturing services (included in cost of sales and services)	**88,592**	26,274
Staff costs:		
Directors' emoluments	**2,474**	4,021
Other staff costs		
– Salaries and other benefits	**198,241**	250,621
– Retirement benefits scheme contributions	**51,590**	48,481
	252,305	303,123
Less: Amount capitalised in development costs	**(68,965)**	(108,146)
Less: Amount capitalised in inventories	**(22,861)**	(28,494)
	160,479	166,483

10. DIVIDENDS

During the current year, a special dividend of HK1 cent (2018: HK4 cents) per share were declared and paid to the owners of the Company. The aggregate amount of special dividends declared and paid in the current year amounted to HK$24,993,000 (2018: HK$143,335,000).

The Directors do not recommend the payment of a final dividend for the years ended 31 December 2019 and 2018.

11. (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:

	2019 ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Audited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the year attributable to owners of the Company)	**(76,938)**	238,012

	2019 ***'000*** **(Unaudited)**	2018 *'000* (Audited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,471,407**	2,550,366
Effect of dilutive potential ordinary shares – share option	**–**	–
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,471,407**	2,550,366

For the year ended 31 December 2019, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options because the exercise prices of these share options were higher than the average market price for shares for the year.

12. TRADE AND NOTES RECEIVABLES

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

The following is an aged analysis of trade receivables, net of allowance for credit loss, as well as notes receivables presented based on the invoice dates at the end of the reporting period, which approximated the revenue recognition dates:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
0-30 days	**184,216**	131,229
31-60 days	**41,753**	30,168
61-90 days	**15,293**	15,054
91-180 days	**14,893**	24,846
Over 180 days	**48,061**	21,769
	304,216	223,066
Less: Allowance for credit losses	**(28,387)**	(24,031)
Trade receivables	**275,829**	199,035
Notes receivables *(Note)*		
0-30 days	**726**	25,008
31-60 days	**1,619**	828
61-90 days	**55**	958
91-180 days	**4,009**	4,756
Over 180 days	**224**	914
	6,633	32,464
	282,462	231,499

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 provision of ECL, which is based on an evaluation of the collectability and aged analysis of accounts on every individual trade debtor with significant balances or credit impaired and the remaining balances are grouped based on past due characteristics and on management's judgement including creditworthiness, the past collection history and forward-looking information.

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 dates for trade payables or date of issuance for notes payables is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0-30 days	**149,035**	63,336
31-60 days	**19,724**	39,466
61-90 days	**2,636**	51,477
Over 90 days	**47,858**	25,172
	219,253	179,451
Notes payables		
0-30 days	**5,069**	5,371
	224,322	184,822

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend to shareholders of the Company ("Shareholders") for the Year.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' right to attend and vote at the forthcoming annual general meeting of the Company ("AGM"):

Closure dates of Register of Shareholders (both days inclusive)	11 June 2020 (Thursday) to 16 June 2020 (Tuesday)
Latest time to lodge transfers	4:30 p.m. on 10 June 2020 (Wednesday)
Record date	16 June 2020 (Tuesday)
AGM	16 June 2020 (Tuesday)

During the period 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 Tuesday, 16 June 2020. The notice of the AGM will be posted on the respective websites of the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") and dispatched to the Shareholders in due course.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In year 2019, the continuous negative impact of the Sino-US trade war, fluctuations in foreign exchange markets and the outbreak of the coronavirus disease (COVID-19) epidemic at the end of the year added challenges to the already weakened global economy. In Mainland China, the investment sentiment remained cautious. Some manufacturers with low capabilities in risk management faced disruption or even collapse in the supply chain, affecting the production and delivery of some of the Group's orders. All of these unfavourable factors presented unprecedented risks and challenges to the Group and led to difficult operating conditions in 2019.

The Group recorded revenue of HK$1,281.5 million in year 2019 with loss attributable to owners of the Company of HK$76.9 million. Operating results of the business segments within the Group's core businesses were affected to varying extents. Revenue in the handsets and IOT terminals business increased by around 160% in the second half of 2019 against the first half and recorded a profit for the second half-year. However, the business remained loss-making but with a notably smaller amount for the whole year. As for the EMS business, the Group's adjustment of the processing fees due to the changes of business model during the year led to reduction in gross profit when compared with last year. The Group's intelligent manufacturing business stood out from the market with its automated testing system product lines. The machine vision and industrial IOT product lines have not yet achieved the expected production volume. The Group also continued to make adjustments to its IOT systems and O2O business and set development directions for these segments.

Handsets and IOT terminals business

In year 2019, the revenue of the handsets and IOT terminals business segment amounted to HK$749.6 million, representing a decline of 9.7% against last year. Gross profit was HK$56.6 million, representing a decrease of 22.8% when compared with last year. Gross profit margin also shrank by 1.2 percent point year-on-year to 7.6%. During the year, the gross profit margin of normal product shipment increased year-on-year, but the overall gross profit margin decreased slightly due to the price discount made to historical inventory in the first half of the year. The expenses increased significantly compared with year 2018, mainly due to the impairment treatment of intangible assets formed by the capitalization of research and development (R&D) expenses in the first half of the year. In the second half of 2019, the delivery of some new projects drove revenue up by 160% against the first half of 2019 and the operating result of this segment showed a V-shaped rebound to record a profit for the second half-year, substantially offsetting the operational loss recorded in the first half-year.

After years of transformation and adjustments, the IOT and industrial terminals products now account for an important proportion of the segment's revenue and profit. The Group designs and produces various intelligent terminals for customers, including scanning, mobile point-of-sale, intercom network terminals, encrypted phones and tablets, 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.

During the year, this business segment recorded a loss mainly due to three reasons. Firstly, the Group enjoyed no advantage in raw material procurement costs and processing costs. Compared with consumer terminals, IOT industrial terminals are characterised by their highly specialised features, low-volume manufacturing and long product development time. The segment is highly reliant on a stable and long-term supply chain and needs massive procurement resources. Besides, as the segment is not able to benefit from economies of scale, the Group has little leverage when negotiating with suppliers. The Group has decided to relocate its supply chain to Southern China. However, the efficiency of such a move remains uncertain as it is still in the early ramp-up stage. Most of the Group's terminal products are processed and assembled at the production base in Qingpu, Shanghai, where labour cost of non-technical posts (operators) is $30,000 higher per year per person than the average in other regions. This was the main reason for the surge in processing costs during the year. The Group has planned to set up a new production base in Dongguan and has strived to look for cooperative partners. To save costs, the Group will outsource the assembly and packaging processes which account for the higher labour costs as the first step, as well as conduct automated and intelligent transformation of the surface mounted technology (SMT) patch and testing process.

Secondly, the Group was unable to deliver sales orders on time due to the unstable upstream supply chain. China's real economy encountered big challenges during the year, with some of the raw material suppliers facing disruption in the capital chain, suspension in delivery and even collapse, thereby seriously affecting the handset supply chain. No guarantee could be given on delivery schedule and costs of materials amid the urgent replacement of non-performing suppliers, thus affecting shipment volume and product costs.

Thirdly, the IOT terminals market is fragmented with no explosive growth in the Group's targeted products and markets. Revenue of this business segment remained at a relatively stable level with no notable growth. Reviewing the domestic and overseas markets in year 2019, the market scale of wearable consumer electronic devices including true wireless stereo (TWS) headphone, smart bracelets and smart watches continued to expand, with particularly rapid growth in smart consumer hardware devices such as smart set-top boxes and robots for household use. Virtual reality (VR)/AR equipment technologies have not been readily embraced by mass consumers and the related costs of development were also higher than expected, all of which contributed to limited shipment volume.

The coronavirus disease (COVID-19) pandemic has been affecting the world since early 2020. While the final impact of the pandemic on the world is still unknown, the Group's operations have been negatively affected in 2020. As the Group's upstream suppliers and the Qingpu production base have not been able to resume full capacity on schedule, the shipment volume of the business segment is expected to drop substantially in the first half of 2020. Delay in development of new projects will also occur as a result of reduced logistical efficiency and resulting adjustments in planning and strategy. Nevertheless, the pandemic may also present a positive impact as the government will step up its investment to stimulate economic growth and all industries will try harder to reduce their reliance on manual labour. Many industries and enterprises will increase their investment in robots and online offices, as well as automated and smart operations, and also speed up the development of related areas. Such moves will generate more opportunities for the Group. The handsets and IOT terminals business remained a cornerstone of the Group. The Group will continue to reap the success of the transformation of this business segment as it furthers business expansion in the IOT area in a bid to reshape the industry and create brighter prospects.

Electronics manufacturing services business

This business segment achieved revenue of HK$93.0 million in year 2019, representing a year-on-year decrease of 83.4%. Gross profit declined by 11.3% year-on-year to HK$4.4 million. The substantial decrease of turnover was due to using different standards for revenue recognition after the changes in the business model. In the first half of 2018, the Group's wireless communication modules segment mainly sold finished products to overseas markets. The revenue included material costs, processing costs and profit margin for the finished products. After the transition of its business model, all of the materials were provided by customers and the Group was responsible for processing and manufacturing only. The revenue in the second half of 2018 and 2019 included costs and profit of processing only. Since the competition across the whole EMS industry has been intensifying in recent years, the Group has also encountered pricing pressure from customers. During the year, the Group also made a downward adjustment on the processing costs for its important customers. As a result, gross profit of the EMS business dropped year-on-year significantly. Concerning different bases, the revenue in year 2018 was much larger than that in year 2019, therefore, the gross profit margin increased while the gross profit decreased.

In the future, while providing quality service for its existing EMS customers, the Group will also actively explore new customers and new processing product categories, especially the development of potential overseas customers. In addition, the Group will continue to increase investment to raise the extent of automation and artificial intelligence in its production in order to reinforce its advantages and stringently control the quality of its products. In order to cope with higher labour costs, the Group plans to relocate its assembly and packaging processes to regions enjoying lower labour costs in the short term and build new production bases in the mid-to-long-term, with the aim of reducing costs. By doing so, the Group strives to provide higher quality services to customers while controlling its costs and boosting its competitiveness.

Internet of things system and online-to-offline business

This business segment still incurred a loss in year 2019. With some of the businesses divested (the offline automatic vending machine business), both revenue and expenses of the segment decreased to a large extent and its gross profit margin dropped markedly. The Group remains unchanged in its strategic approach of reducing offline operations for the online and offline operations of vending machines, and it is exploring other more promising online and offline services proactively and focusing on markets such as the "Internet of Vehicles." The Group's IOT system and O2O business will strengthen cooperation with the terminals sector to provide customers with "cloud + terminal" one-stop solutions.

Intelligent manufacturing business

This business segment achieved revenue of HK$126.5 million in year 2019, representing a year-on-year decrease of 11.2%. Gross profit declined by 7.8% year-on-year to HK$37.1 million. However, gross profit margin recorded a year-on-year growth slightly, attributable to the Group's continuous effort to control costs and implement a differentiated pricing strategy. Its greater R&D investment in new product lines was the main reason for the rise of its current expenditure. Hence, the net profit dropped significantly despite gross profit remaining basically unchanged.

During the year, the automated testing system product line registered an outstanding performance, accounting for most of the revenue and profit. Owing to the Group's leading position in terms of market share and technology, this business achieved steady revenue growth during the year. The Group's production lines dedicated to 5G handsets and modules are at the R&D stage and are expected to become mature and possibly ready for launch to the market in the first half of 2020. The Group's investment in the printed circuit board manufacturing industry and the glass cover of mobile terminal industry is also becoming mature and is expected to contribute to growth in both revenue and profit.

Investment has generally become conservative under the influence of the external economic environment. The COVID-19 pandemic has brought a negative impact on market demand, especially for SMEs who face immense pressure on operations and capital, making them cautious with equipment and technology investments, but there will be opportunities among these challenges. The manufacturing industry will still continue to replace labourers with robots. The need for upgrade and reform of artificial intelligence and automation will be pressing. In particular, after the COVID-19 pandemic has subsided, labour shortages will further reduce the dependence of companies on labourers. Also, production of 5G products will create a new round of demand for upgrades, thus injecting new momentum into the Group's automated testing system product line business.

Looking ahead, the intelligent manufacturing business will remain a key business development segment for the Group. Investments will be increased in automated testing system product lines to seize new opportunities in the 5G market and further enhance its strengths and enlarge its market share. The Group will enhance commercialisation of existing technologies comprising artificial intelligence (AI), machine vision product lines and IOT product lines and enlarge its product portfolio to generate better returns. It will also design and create a new automated core product to drive new business.

Property development

As at 31 December 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 31 December 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 of its two phases, of which 748 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 year 2018 and only a small amount of properties remaining was sold and delivered in year 2019, resulting in a huge decrease in revenue to HK$8.8 million (2018: HK$409.4 million) with a gross profit margin of 24.0% (2018: -5.2%).

Property management

For the year ended 31 December 2019, the revenue of property management was mainly derived from the leasing of SIM Technology Building Block A and Block B in Shanghai, factory units in Shanghai and Shenyang and commercial properties in Shenyang. A total area of approximately 54,000 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 property management for year 2019 amounted to HK$43.1 million (2018: HK$50.0 million) with a gross profit margin of 97.4% (2018: 93.0%).

Prospects

Despite the impact of Sino-US trade tensions, the Group's overall operations gradually improved along with the outstanding performance of its terminals business in the second half of 2019 and it appeared to be on course to record a turnaround in 2020 but the COVID-19 pandemic since early 2020 has completely disrupted the upward trend of its business recovery. In the light of the current situation, the management expects the Group's revenue to plummet dramatically in the first half of 2020, and may even lead to a loss. As the pandemic gradually subsides in the second half of the year, business will slowly pick up. The Group's goal remains to be becoming profitable in the year. However, the management realises that certain circumstances such as adjustment, postponement or even cancellation of existing projects, rising raw material costs, failure of suppliers to deliver materials on time, cancellation of orders or requests for price reduction by customers, etc, are likely. These are the challenges that the Group needs to face in 2020.

Year 2020 is destined to be an especially tough year. The COVID-19 pandemic is a “black swan” event and the full impact of the financial toll remains to be seen. Signs of an imminent economic recession have already appeared in the form of extremely volatile stock markets. In the USA for instance, a market wide circuit breaker has already been triggered four times in March 2020 as at 18 March 2020. The Group is not immune to such a challenging business environment and ensuring survival has become its first and foremost priority. Currently, the management is unable to make an accurate forecast of when the adverse external effects cited above will pass and when the Group’s businesses will pick up. Facing such adversity, the Group will strengthen its capabilities, and double down on efforts to control costs, improve efficiency, and further develop its competitive businesses and products while patiently waiting for market recovery and preparing for the next opportunities.

FINANCIAL REVIEW

For the year ended 31 December 2019, the revenue from handsets and IOT terminals business, EMS business, IOT system and O2O business and intelligent manufacturing business (“Core Business”) decreased by 33.6% to HK$1,229.6 million (2018: HK$1,852.9 million). The revenue from the sale of residential properties and property management (together “Non-core Business”) decreased by 88.7% to HK$51.9 million in 2019 as compared with that in 2018 (2018: HK$459.4 million). The total revenue of the Group for the Year, including revenue of Core Business and Non-core Business, amounted to HK$1,281.5 million (2018: HK$2,312.2 million).

The gross profit for Core Business of the Group for the Year decreased by 23.8% year-on-year to HK$115.6 million (2018: HK$151.8 million). The gross profit margin for Core Business increased to 9.4% (2018: 8.2%) and the gross profit margin for Non-core Business increased to 84.9% (2018:5.5%) The overall gross profit margin of the Group for the Year was 12.5% (2018: 7.7%).

As a result of the decrease in revenue in year 2019, an absence of gain on disposal of wireless communication modules business which was completed in year 2018, an one-off provision in relation to research and development expenses already capitalised and a provision on the entrusted loan receivable, the Group achieved a loss attributable to owners of the Company of HK$76.9 million (2018: profit attributable to owners of the Company of HK$238.0 million) for the Year. The basic loss per share for the Year was HK3.11 cents (2018: the basic earnings per share was HK9.33 cents).

Research and development expenses

In year 2019, the Group mainly focused on the development of handsets and IOT terminals business. The number of design and development team members was 540 in year 2019 (2018: 530). Total R&D expenses of the Group, which amounted to HK$79.7 million (2018: HK$52.2 million), represented 6.2% (2018: 2.3%) of the Group’s revenue.

Selling and distribution costs

The selling and distribution costs of the Group for the Year decreased by 41.0% to HK$67.5 million (2018: HK$114.5 million). The ratio of the selling and distribution costs over revenue in year 2019 was 5.3% (2018: 4.9%).

Administrative expenses

The Group's administrative expenses for year 2019 decreased by 12.1% to HK$106.5 million (2018: HK$121.2 million), representing 8.3% (2018: 5.2%) of the revenue.

Segment results of core business

	Year ended 31 December 2019 (unaudited)			Year ended 31 December 2018 (audited)		
	Revenue *HK$'M*	**Gross profit** *HK$'M*	**Gross profit margin** *%*	Revenue *HK$'M*	Gross profit *HK$'M*	Gross profit margin *%*
Handsets and IOT terminals business	**749.6**	56.6	7.6	829.9	73.3	8.8
EMS business	**93.0**	4.4	4.7	561.6	4.9	0.9
IOT system and O2O business	**260.5**	17.5	6.7	318.9	33.3	10.4
Intelligent manufacturing business	**126.5**	37.1	29.3	142.5	40.3	28.3
Total	**1,229.6**	115.6	9.4	1,852.9	151.8	8.2

Handsets and IOT terminals business

The revenue of this segment decreased year-on-year by 9.7% to HK$749.6 million (2018: HK$829.9 million) in year 2019. Frequent factory 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 prevented from completing some of the orders and realizing revenue from those orders. In addition, due to the discounted sales for some of the historical inventory in the first half of 2019, the gross profit margin dropped slightly. The overall gross profit margin of this business segment decreased slightly to 7.6% (2018: 8.8%) for the Year. The revenue of ODM business contributed to approximately 89% of the revenue of this segment in year 2019 (2018: 88%).

EMS business

After the completion of disposal of wireless communication modules business in 1H-2018, the business nature of this segment has changed from original brand manufacturer ("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 the EMS business was lower than that of the OBM business.

In year 2019, due to the adjustment in business model and change in revenue recognition method, the revenue of this segment decreased year-on-year by 83.4% to HK$93.0 million (2018: HK$561.6 million). In addition, due to fierce competition in the EMS business, the Company reduced the processing fee of major customers several times, causing the decrease in gross profit year-on-year to HK$4.4 million (2018: HK$4.9 million).

IOT system and O2O business

During year 2019, with some of the businesses divested, both revenue and gross profit margin of the segment decreased by some extent. The revenue of this segment was HK$260.5 million (2018: HK$318.9 million) and the gross profit margin decreased to 6.7% (2018: 10.4%).

Intelligent manufacturing business

During the Year, due to the excellent quality and good reputation of the Group's automated testing system products, the Group received favorable comments and stable number of orders. However, due to the differentiated pricing strategy implemented during the Year, the segment revenue decreased. In addition, due to the decentralization of orders with the majority of orders being in small batches and the continuing cost control measures of the Company, the segment revenue for the Year decreased by 11.2% to HK$126.5 million (2018: HK$ 142.5 million) while the gross profit margin increased to 29.3% (2018: 28.3%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 31 December 2019, the Group had bank balances and cash of HK$611.7 million (31 December 2018: HK$647.8 million), among which 66.1% was held in US dollars, 33.8% was held in Renminbi and the remaining balance was held in Hong Kong dollars, and short-term deposits of HK$296.4 million (31 December 2018: $Nil), among which 62.1% was held in US dollars and 37.9% was held in Renminbi. As at 31 December 2019, the Group also had pledged bank deposits of HK$31.2 million (31 December 2018: HK$57.6 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$77.9 million as at 31 December 2019 (31 December 2018: HK$83.9 million), all of which was denominated in Renminbi. All of the bank borrowings were at floating interest rates and repayable within one year.

Operating Efficiency

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

	2019	2018
	Days	*Days*
	(Unaudited)	(Audited)
Inventory turnover period	**102**	121
Trade and notes receivables turnover period	**74**	55
Trade and notes payables turnover period	**79**	58

In year 2019, due to the significant decrease in average balance of inventory amount for the Year, the inventory turnover period decreased as compared to that of year 2018.

The trade and notes receivable turnover period increased for the Year as compared to that of year 2018 due to the significant decrease in sales for the Year.

The trade and notes payables turnover period increased for the Year as compared to that of year 2018 due to the significant decrease in purchases for the Year.

As at 31 December 2019, the current ratio, calculated as current assets over current liabilities, was 2.9 times (31 December 2018: 3.1 times).

The Group reckons that the 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 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, bank balances and bank borrowings are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. As at 31 December 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 31 December 2019, the Company had 2,430,724,300 ordinary shares of HK$0.10 each in issue.

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

CASH FLOW STATEMENT HIGHLIGHTS

	2019 ***HK$'million*** **(Unaudited)**	2018 *HK$'million* (Audited)
Net cash from operating activities	**481.4**	250.4
Capital expenditure	**(31.8)**	(45.6)
Development costs paid	**(104.6)**	(166.0)
Net (decrease) increase in bank borrowings	**(11.7)**	4.4
Proceeds from disposal of property, plant and equipment	**8.4**	5.5
Net cash inflow on disposal of subsidiaries	**–**	536.7
Interest paid	**(2.6)**	(6.2)
Dividend paid	**(25.0)**	(143.3)
Cash used in acquisition of additional interest of subsidiaries	**–**	(8.0)
Cash transferred to non-controlling interest of a subsidiary upon share reduction in registered capital of a subsidiary that does not result in losing control	**(45.4)**	–
Proceeds from disposal of equity instruments at FVTOCI	**42.8**	17.9
Decrease in other liabilities	**(29.5)**	(109.8)
Purchase of license	**–**	(26.2)
Purchase of financial asset at FVTPL	**–**	(25.9)
Purchase of equity instruments at FVTOCI	**(1.1)**	(7.5)
Repurchase of shares	**(27.0)**	(11.8)
Acquisition of a subsidiary	**(18.4)**	–
Others	**(1.5)**	(6.5)
Net increase in cash and cash equivalents (including pledged bank deposits and short-term bank deposit)	**234.0**	258.1

GEARING RATIO

As at 31 December 2019, the total assets value of the Group was HK$2,866.9 million (31 December 2018: HK$2,972.0 million) and the bank borrowings were HK$77.9 million (31 December 2018: HK$83.9 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 2.7% (31 December 2018: 2.8%).

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the circular of the Company dated 18 January 2018, the Group intends to apply part of the net proceeds from the Disposal for purchase of a piece of the land for the Group's operations centre in Dongguan, the PRC and the related construction costs.

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 2019, the Group did not have any significant investment.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 31 December 2019, the Group had approximately 1,760 (2018: 1,760) 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$252.3 million (2018: HK$303.1 million) during the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the 12 months ended 31 December 2019, the Company repurchased 77,686,000 shares of the Company on the Stock Exchange and the shares repurchased were cancelled subsequently. Details of the repurchase were as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid (inclusive of related expenses)
	'000	*HK$*	*HK$*	*HK$'000*
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
October 2019	15,716	0.265	0.223	3,764
November 2019	11,888	0.295	0.265	3,407
	77,686			23,366

Other than the shares repurchased by the Company as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

EVENT AFTER THE REPORTING PERIOD

The outbreak of COVID-19 has become a pandemic. Major cities in the PRC have taken emergency measures.

The PRC subsidiaries of the Company have been directed by the local governments to facilitate the prevention and control measures during the COVID-19 pandemic, including extending the Chinese New Year holidays, and adopting safety measures for resuming operation under the guidance and approval of the local governments.

Further, the Group has implemented prevention and control measures to ensure the Group's continued capacity to operate its business.

The Directors will continue to assess the impact of the COVID-19 pandemic on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection therewith.

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.

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 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 for the Year.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of the PRC to combat the coronavirus disease (COVID-19) pandemic. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with International Standards on Auditing.

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

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or before 8 April 2020.

PUBLICATION OF UNAUDITED RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This unaudited results announcement is published on the respective websites of the Company (www.sim.com) and of the Stock Exchange (www.hkexnews.hk). The 2019 annual report will be despatched to the Shareholders and be available on the above websites in due course.

APPRECIATION

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

DIRECTORS

As at the date of this announcement, the executive directors of the Company are Ms Yeung Man Ying, Mr Wong Cho Tung, Ms Tang Rongrong 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
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.

31 March 2020

* *For identification purposes only*