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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 2016

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 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

		Six months ended 30 June	
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,325,658	1,124,772
Cost of sales		(1,124,405)	(947,133)
Gross profit		201,253	177,639
Other income	5	32,926	48,009
Other gains and losses	5	(3,391)	(3,702)
Research and development expenses		(41,280)	(71,465)
Selling and distribution costs		(64,828)	(55,107)
Administrative expenses		(67,027)	(58,859)
Share of results of associates		(747)	(473)
Finance costs		(4,639)	(4,972)
Profit before taxation		52,267	31,070
Taxation	6	(19,518)	(13,910)
Profit for the period	7	32,749	17,160
Profit for the period attributable to:			
Owners of the Company		31,012	16,465
Non-controlling interests		1,737	695
		32,749	17,160
Earnings per share (HK cents)	9		
Basic		1.2	0.6
Diluted		1.2	0.6

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

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	32,749	17,160
Other comprehensive income (expense):		
Items that may not be subsequently reclassified to profit or loss for the period:		
Exchange difference arising on translation to presentation currency	(5,026)	2,609
Total comprehensive income for the period	<u>27,723</u>	<u>19,769</u>
Total comprehensive income attributable to:		
Owners of the Company	26,846	19,004
Non-controlling interests	877	765
	<u>27,723</u>	<u>19,769</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 HK\$'000 (unaudited)	31 December 2015 HK\$'000 (audited)
	Notes		
Non-current assets			
Investment properties		358,187	355,981
Properties, plant and equipment		408,292	405,976
Land use rights		89,188	91,605
Intangible assets		138,725	117,017
Deferred tax assets		45,049	45,487
Finance lease receivables		2,778	3,184
Interests in associates		4,586	5,333
Available-for-sale investments		16,875	16,875
Entrusted loan receivables		—	47,360
Consideration receivable		1,687	1,806
		<u>1,065,367</u>	<u>1,090,624</u>
Current assets			
Inventories		613,131	668,271
Finance lease receivables		8,535	9,954
Properties under development for sale		272,546	227,010
Properties held for sale		293,125	340,681
Trade and notes receivables	10	305,273	292,356
Other receivables, deposits and prepayments		249,836	254,709
Amount due from an associate		1,400	—
Amounts due from non-controlling shareholders of subsidiaries		2,694	8,504
Consideration receivable		704	754
Entrusted loan receivables		117,300	74,592
Pledged bank deposits		50,580	102,864
Bank balances and cash		245,687	298,386
		<u>2,160,811</u>	<u>2,278,081</u>
Assets classified as held for sale		27,119	27,384
		<u>2,187,930</u>	<u>2,305,465</u>
Current liabilities			
Trade and notes payables	11	488,112	628,401
Other payables, deposits received and accruals		325,631	236,260
Amount due to a non-controlling shareholder of a subsidiary		37,067	46,911
Amount due to an associate		—	3,501
Bank borrowings		205,275	333,520
Tax payable		19,438	8,229
		<u>1,075,523</u>	<u>1,256,822</u>
Liabilities associated with asset classified as held for sale		24,574	24,805
		<u>1,100,097</u>	<u>1,281,627</u>
Net current assets		<u>1,087,833</u>	<u>1,023,838</u>
Total assets less current liabilities		<u><u>2,153,200</u></u>	<u><u>2,114,462</u></u>

	30 June 2016 <i>HK\$'000</i> (unaudited)	31 December 2015 <i>HK\$'000</i> (audited)
Capital and reserves		
Share capital	255,790	255,790
Reserves	1,668,287	1,639,989
Equity attributable to owners of the Company	1,924,077	1,895,779
Non-controlling interests	102,644	102,605
Total equity	2,026,721	1,998,384
Non-current liabilities		
Deferred tax liabilities	68,252	63,528
Deferred income	58,227	52,550
	126,479	116,078
	2,153,200	2,114,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information and basis of preparation

The Company was incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda (as amended) with limited liability.

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

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

The condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard (“IAS”) 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 the Stock Exchange.

2. Principal accounting policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are mandatorily effective for the current interim period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Revenue

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

4. Segment information

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 2016, the Group was organised into six (2015: six) reportable and operating segments, being sale of handsets and solutions, sale of wireless communication modules, internet of things business, intelligent manufacturing business, sale of display modules, and property development.

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

For the six months ended 30 June 2016 (Unaudited)

	Sale of handsets and solutions HK\$'000	Sale of wireless communication modules HK\$'000	Internet of things business HK\$'000	Intelligent manufacturing business HK\$'000	Sale of display modules HK\$'000	Property development HK\$'000	Segment total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue									
External sales	687,030	331,019	121,613	73,463	–	112,533	1,325,658	–	1,325,658
Segment profit	8,404	25,255	181	5,687	–	4,922	44,449	–	44,449
Other income and other gains and losses									26,189
Share of results of associates									(747)
Corporate expenses									(12,985)
Finance costs									(4,639)
Profit before taxation									52,267

For the six months ended 30 June 2015
(Unaudited)

	Sale of handsets and solutions <i>HK\$'000</i>	Sale of wireless communication modules <i>HK\$'000</i>	Internet of things business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Sale of display modules <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue									
External sales	624,693	286,359	120,887	26,460	–	66,373	1,124,772	–	1,124,772
Segment profit (loss)	8,121	29,124	(5,509)	(8,883)	(5,288)	3,887	21,452	–	21,452
Other income and other gains and losses									24,059
Share of result of an associate									(473)
Corporate expenses									(8,996)
Finance costs									(4,972)
Profit before taxation									31,070

Segment result represents the financial result by each segment without allocation of gain from changes in fair values of investment properties, rental income, interest income, unallocated exchange loss (gain), loss on disposal of property, plant and equipment, share of results of associates, 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 2016 <i>HK\$'000</i> (unaudited)	31 December 2015 <i>HK\$'000</i> (audited)
Segment assets		
Sale of handsets and solutions	839,599	1,057,811
Sale of wireless communication modules	444,241	348,219
Internet of things business	214,471	211,472
Intelligent manufacturing business	226,214	135,349
Sale of display modules	–	–
Property development	611,901	602,675
Total segment assets	2,336,426	2,355,526
Segment liabilities		
Internet of things business	14,168	12,673
Property development	210,956	132,627
Sale of display modules	–	–
Intelligent manufacturing business	79,591	49,914
Attributable to operating segments other than sale of display modules, internet of things business, intelligent manufacturing business and property development (<i>Note</i>)	561,973	736,504
Total segment liabilities	866,688	931,718

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than investment properties, certain property, plant and equipment, certain land use rights, interests in associates, entrusted loan receivables, consideration receivable, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, bank balances and cash, available-for-sale investments, deferred tax assets, certain other receivables, deposits and prepayments, amount due from an associate and asset classified as held for sale. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments.

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

5. Other income/Other gains and losses

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income		
Refund of Value Added Tax ("VAT") (<i>Note</i>)	4,289	2,274
Government grants	7,761	16,970
Interest income earned on bank balances and structured deposits	1,781	2,768
Interest income earned on entrusted loan receivables	3,746	5,898
Rental income (Less: outgoings of HK\$200,000 (six months ended 30 June 2015: HK\$201,000))	15,187	15,468
Others	162	4,631
	32,926	48,009
Other gains and losses		
Loss on disposal of property, plant and equipment	(713)	(2,216)
Impairment loss recognised in respect of property, plant and equipment	–	(4,506)
Net foreign exchange (loss) gain	(3,489)	539
Changes in fair values of investment properties	5,555	290
Gain on disposal of a subsidiary	–	2,191
Net allowance for bad and doubtful debts	(4,744)	–
	(3,391)	(3,702)

Note:

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

6. Taxation

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	(12,778)	(10,254)
PRC Land Appreciation Tax	(2,251)	(1,325)
Overprovisions on PRC Enterprise Income Tax	985	1,096
Deferred tax charge	(5,474)	(3,427)
	<u>(19,518)</u>	<u>(13,910)</u>

No provision for Hong Kong Profits Tax has been made for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong.

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

The provision of 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 2015: 30% to 60%) of the appreciation value, with certain allowable deductions.

7. Profit for the period

Six months ended 30 June	
2016	2015
HK\$'000	HK\$'000
(unaudited)	(unaudited)

Profit for the period is arrived at after charging:

Amortisation of intangible assets (included in cost of sales)	74,286	47,041
Less: Amount capitalised in development costs classified as intangible assets	(177)	(586)
	74,109	46,455
Amortisation of land use rights	1,578	1,477
Depreciation of property, plant and equipment	34,534	37,060
Less: Amount capitalised in development costs classified as intangible assets	(1,516)	(1,519)
	33,018	35,541
Staff costs including directors' emoluments	147,114	136,132
Share-based payments	1,452	1,452
Less: Amount capitalised in development costs classified as intangible assets	(62,612)	(48,577)
	85,954	89,007
Operating lease rentals in respect of land and buildings	4,795	4,294
Less: Amount capitalised in development costs classified as intangible assets	(1,434)	(756)
	3,361	3,538
Costs of inventories recognised as an expense (included in cost of sales)	1,000,287	870,295
Costs of properties sold (included in cost of sales)	98,068	54,102
	<u>1,098,355</u>	<u>958,690</u>

8. Dividends

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2016 and 2015.

9. Earnings per share

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	31,012	16,465
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,557,897	2,557,596
Effect of dilutive potential ordinary shares – share options	2,469	62,613
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,560,366	2,620,209

The computation of diluted earnings per share for the six months ended 30 June 2016 and 2015 did not assume the exercise of certain of the Company's share options because the exercise price of these options was higher than the average market price for both six months period ended 30 June 2016 and 2015.

10. Trade and notes receivables

The normal credit period given on sale of goods is 0-90 days.

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

	As at 30 June 2016 <i>HK\$'000</i> (unaudited)	As at 31 December 2015 <i>HK\$'000</i> (audited)
Trade receivables		
0 – 30 days	173,300	169,379
31 – 60 days	74,006	75,372
61 – 90 days	42,872	26,913
91 – 180 days	10,341	3,688
Over 180 days	36,267	30,964
	336,786	306,316
Less: Accumulated allowances	(35,966)	(31,551)
	300,820	274,765
Notes receivables (Note)		
0 – 30 days	3,490	17,591
91 – 180 days	963	–
	4,453	17,591
Trade and notes receivables	305,273	292,356

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

11. Trade and notes payables

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

	As at 30 June 2016 HK\$'000 (unaudited)	As at 31 December 2015 HK\$'000 (audited)
0 – 30 days	347,843	569,902
31 – 60 days	116,360	35,444
61 – 90 days	8,112	4,112
Over 90 days	15,797	18,943
	<u>488,112</u>	<u>628,401</u>

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to the shareholders of the Company (“Shareholders”) for the six months ended 30 June 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Reviewing 2015, the Group's business positioning and development strategies after its business transformation have begun to show notable results. In the first half of 2016, the Group has continued to consolidate the growth in its quality Original Design Manufacturer (ODM) consumer handset and wireless communication modules businesses. At the same time, the Group has also actively expanded the industrial application terminal, Internet of Things (“IOT”) and intelligent robotic manufacturing businesses. During the reporting period, most of the core businesses of the Group recorded growth in revenue and gross profit, laying a solid foundation for the sustainable development of its overall operation in the future.

For the handsets and solutions business, the handsets developed for an internet operator last year were sold in the market throughout the first half of 2016. Meanwhile, the Group also boosted its research and development (“R&D”) efforts in industry applications and IOT terminals last year. The combined effect contributed to the growth of the shipment volume and revenue in the first half of 2016, as compared to the same period last year. However, consumer handsets, which accounted for a larger proportion of shipment volume and sales, had a lower gross profit margin, resulting in a slight decrease in gross profit and gross profit margin in the handsets and solutions business during the period.

Due to the increasing demand for the Group's wireless communication modules from domestic and overseas markets, overall shipments have risen more than 27% as compared to the same period last year, of which 3G and 4G products had higher sales amounting to an increase of 40% and 12-times respectively. Hence, the shipment, sales and gross profit during the period recorded considerable growth. Benefitting from the notable growth in sales volume of 4G modules, gross profit margin for the period remained at the same level as compared to the same period last year despite the declining average selling price ("ASP") of 2G and other low-end modules.

As for the IOT business, the Group has continued to boost the investment in the value-added services of intelligent vending machines. It has expanded the business from retail, finance leasing and beverage trading to sectors including the operation of Online-To-Offline ("O2O") big data platform and the manufacturing of intelligent vending machine controllers. During the reporting period, the Group rationalised some of the Point-Of-Sales ("POS") that incurred higher rental or did not reach the sales target and tightened the cost control of rental fees over its newly-added POS. In addition, the Group has continued to expand the cloud computing and big data service platform, which has been applied in areas such as intelligent community and intelligent elderly care services, Internet of Vehicles ("IoV") applications and property management.

During the period under review, the Group has continued to actively expand the intelligent manufacturing business, fully utilized its advantage of manufacturing techniques and thorough understanding in the area of handsets and related components, and expanded its R&D team for robotics application and integration. These initiatives have enable it to quickly capture opportunities in the handset manufacturing market with notable results. The Group has enjoyed recognition as a prestigious brand in the communication and Surface-Mount Technology (SMT) testing sectors. During the reporting period, both sales and gross profit recorded significant growth. However, in order to secure more customers who can afford to consume our intelligent manufacturing products, the price reduction strategy adopted amidst the fierce market competition has affected the growth in gross profit margin for the period.

Handsets and solutions business

Handset operators continue to purchase low-end 4G handsets from low-end to mid-range brands in China and use these handsets to boost their sales through giving away handsets when customers sign up for their mobile subscriptions. At the same time, some major handset brands sell their flagship products through their numerous POS. However, the intensifying competition in the open consumer market and price war have compelled some brands to focus their differentiated products on niche markets which have achieved progress. During the period, in light of this development trend, the Group has continued to develop products for education, training, light luxury segments and government affairs to secure branded customers in various differentiated product markets, which is expected to bring a contribution to revenue in the second half of the year.

Demand for industrial application terminals has continued to increase along with the further development of the IOT and Business-To-Business (“B2B”) sectors. In addition to expanding traditional scan terminals, police operational terminals and waterproof, dust-proof and shock-resistant terminals, the Group is further increasing investment in two-to-three target industries aiming to become a comprehensive solution provider in that industry. The rapid development of the global IOT market presents enormous potential market demand for terminals. Thus, the Group is continuing its strategy of investment in new areas in order to generate considerable returns in the future.

For the overseas market, the Group has continued to focus on Europe, Japan and North America. These markets have higher entry barriers with a longer investment period. Nevertheless, this strategic thrust is beneficial to the Group’s long-term business development due to the overall income and strong customer loyalty. Apart from traditional consumer terminals, the Group has also been expanding into the IOT and the industrial application terminal segments in these geographic markets and the related new products are to be launched in the next two years.

Wireless communication modules business

The IOT market in China has continued to flourish. The leading companies in different industries and the three largest operators in China have continued to implement favourable strategies such as network upgrades, provision of subsidies and customised terminals, which stimulated the diversification of terminal products and recorded notable growth in mainstream application markets such as smart homes, smart home electrical appliances, mobile payment POS, IOV, wireless automated meter reading (AMR) and security and surveillance. Thanks to the Group’s extensive IOT industry application experience, it has achieved outstanding results across a wide range of IOT applications, enabling it to retain a leading presence in the IOT sector over the years. At the same time, the Group has continued to develop new products and provide prompt quality customised services for customers, while also achieving satisfactory results in the emerging industries including security and surveillance, smart home, smart home electrical appliances and health care sectors. Besides, the Group is also developing projects according to specification for customers in specific industries, thereby assisting customers to speed up the R&D of terminal products and saving their development costs.

Demand in Europe has shown clear signs of warming up. During the period under review, sales volume grew more than 30%. Meanwhile, demand for 2G, 3G and Global Navigation Satellite System (“GNSS”) modules in South East Asia and Australia has also recorded significant growth. The Group and its business partners have actively participated in undertaking tenders for 3G and 4G products in Europe, South Asia, South East Asia and Australia. In North America, the shipment volume of 3G modules has almost doubled, while our SIM7100A 4G module has been applied by some customers. The SIM7500A 4G module is also preparing for passing the AT&T certification. In the Japan market, the certification for 4G modules has been almost completed and the design work for customers’ terminal products has also commenced. The Group expects that these modules and terminal projects would generate more revenue in the second half of 2016. According to an ABI 2015 research report, SIMCOM branded modules accounted for the largest and second largest market share in China and in the world respectively between 2008 and 2014, and ranked the first in freight volume globally in 2015.

IOT business

During the period under review, the Group's big data platform has continued to focus on a series of IOT application integrated solutions such as intelligent community and intelligent elderly care services, health monitoring systems, vehicle anti-theft management, management systems for property security, management systems for student safety, an automatic vending machine O2O service, and an industrial Internet. The platform also provides all-round cloud computing services to the Group through designing servers with uniform standards.

Regarding the vending machine business, after more than two years' development, the Group has enhanced the digital and networking functions of its vending machines, which has enabled multiple online payment functions such as QuickPass, Alipay and WeChat. This becomes an innovative payment model in the PRC which has drawn attention across different industries. In addition to the sale of traditional products such as food and beverages, it will gradually expand to cover other products such as packaged meals, medicine and daily personal necessities. During the period, the Group has optimised the POS, adjusted the product structure of certain POS and facilitated new arrangements and trials for new POS. Besides, the Group has shortened the lease period of certain customers to reduce the scale of finance leasing, lower the burden and risks of its assets and concentrate its resources on developing the profitability of its online business in the future.

The Group's intelligent elderly care services and intelligent community businesses are expanding. The Secretary of the municipal party committee of Shanghai City and Mayor of Shanghai visited one of the high-end intelligent elderly care homes in Shanghai which is using the intelligent platforms and intelligent positioning products produced by the Group and provided a high recognition. Currently, the Group is undertaking intelligent engineering for six intelligent communities. These efforts are expected to form a solid foundation for the Group to develop in the IOT industry.

Intelligent manufacturing business

Since the Group has entered the intelligent manufacturing business segment in 2015, it has developed an automated testing system and subsequently entered the intelligent manufacturing market in the first half of 2016. Leveraging its significant advantages such as technological expertise, prompt attentive service and strong R&D capability, the Group has achieved impressive results in the China market. During the period, the Group has continued to allocate substantial resources to its R&D and design team, which has attained a level comparable to major integrated enterprises in the industry with the capacity to develop and design more than 20 projects concurrently.

The Group's efforts in the intelligent manufacturing business have begun to bear fruit. After the Group was designated as a pilot entity of "Integrated Standardisation and New Model Application for Intelligent Manufacturing", it was also included as one of the 63 companies on the "2016 Intelligent Manufacturing Pilot Demonstration Project" list by the Ministry of Industry and Information Technology. This is the highest honour awarded in the PRC to enterprises which have made significant contribution to execute the national "Made in China 2025" strategy.

Properties development

As at 30 June 2016, “The Riverside Country” (晨興 • 翰林水郡), in Shenyang City, the PRC, has a total of 1,616 residential units in three phases, of which 1,248 units had been sold.

As at 30 June 2016, Phase I of “Seven River in Sweet” (七里香溪), in Taizhou City, the PRC, has a total of 310 residential units, of which 228 units had been sold. The construction of Phase II has been commenced and is expected to be completed in the second half of 2017.

The sales recognised for the first half of 2016 amounted to HK\$112.5 million (2015: HK\$66.4 million) with a gross profit margin of 12.9% (2015: 18.5%).

Prospects

In the future, the Group will continue to implement its ongoing strategies. As for the handset business, more new products developed in the first half are to be launched in the second half of 2016, with most of the profit expected to come from differentiated handset and industrial application terminals. The shipment to several major domestic and overseas customers will create room for increasing profitability. The Group will continue to secure more high-end differentiated customers and increase investment in industry terminals as it broadens its product range and scope of service. Apart from strengthening close cooperation with its current and industry consumers, our future development strategy for the handset business will be to develop domestic and overseas markets.

The global IOT industry is still in a fast-growth stage and has enormous room for expansion. As such, the Group will continue to enrich and optimise 2G modules and launch 3G modules with a higher price-performance ratio. Besides, the highly integrated GNSS+GSM combo module will be marketed in the second half of 2016, optimising the GNSS module product mix. As for 4G modules, this product will be the key driver of the module businesses in the future. The Group has already started delivery of 4G modules and will launch the CAT4 and CAT1 4G modules boasting stronger technology in the second half of the year. At the same time, the Group has developed Narrow Band IOT (NB-IOT) and CAT-M technologies, and will launch customised supporting modules based on the network development of operators and upon the request of customers. Building upon the good results in the past few years and the new projects we have secured from customers, and more recently have captured the world number one market share in 2015, while in the future the Group will strive to enter more high-end markets and maintain its leadership in the global IOT module application and solution market.

The Group's vending machines offer the potential to optimise the POS burdened with higher expenses but low sales volume and reform the old vending machine payment model, and can also connect to a standardised payment platform, so the Group will also continue to enhance the development of value-added business within the intelligent automatic vending machine segment. It will step up its efforts to promote the O2O business and accelerate cooperation within the cloud-based business by working with UnionPay and banks, and use our vending machine network as a satisfactory high-frequency small-amount transaction channel, to promote the new business, hence providing marketing and channel support for them. Moreover, the Group continues to expand the cloud computing and big data service platform to support our self-developed smart home elderly service systems, health monitoring systems and vehicle anti-theft management systems and to promote these systems in both domestic and overseas markets.

Intelligent manufacturing is the latest business area that the Group has entered. It also offers the great development potential and its efforts over the years have started to bear fruit. The Group intends to increase its investment and expand its business scale into more industrial markets. Furthermore, the Group will develop the industrial internet by increasing investment in areas such as intelligent storage and logistics. In the past, our focus has been placed in replacing workers along production lines with equipment. The Group's direction in the future would be replacing workers handling simple, repetitive and mundane paper-work or desk jobs with robots, visual systems and artificial intelligence, which will increase work efficiency, eliminate human failure or error, and ultimately build an intelligent factory in which operations are digitalised, connected by networks with flexibility as described in Industry 4.0.

The management believes that the Group has reported good performances in new growth points and set effective development directions for laying a foundation for its sustainable development. The ensuing growth of its new business is set to advance the Group's overall business to new heights in the coming years.

FINANCIAL REVIEW

For the six months ended 30 June 2016 ("1H-2016"), the revenue of the Group was HK\$1,325.7 million (2015: HK\$1,124.8 million), in which the revenue from sale of handsets and solutions, wireless communication modules, display modules, internet of things business and intelligent manufacturing business (together, "core business") increased by 14.6% to HK\$1,213.2 million (2015: 1,058.4 million) as compared with that of the first half of 2015 ("1H-2015"). The revenue from the sale of residential units in Shenyang and Taizhou, PRC was HK\$112.5 million in 1H-2016 (2015: HK\$66.4 million).

The gross profit for 1H-2016 for core business of the Group increased year-on-year by 13.0% to HK\$186.8 million (2015: HK\$165.4 million). The gross profit margin for core business maintained at 15.4% (2015: 15.6%). The overall gross profit margin of the Group for 1H-2016 was 15.2% (2015: 15.8%).

As a result of the increase in revenue and the gross profit in 1H-2016, the Group achieved a profit attributable to owners of the Company of HK\$31.0 million (2015: HK\$16.5 million). The basic earnings per share for 1H-2016 was HK1.2 cents (2015: HK0.6 cents).

Segment results of core business

	Six months ended 30 June 2016			Six months ended 30 June 2015		
	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %
Handsets and solutions	687	87	12.7	625	92	14.8
Wireless communication modules	331	50	15.0	286	44	15.3
Internet of things business	122	21	17.4	121	17	14.5
Intelligent manufacturing business	73	29	39.0	26	12	43.9
Total	<u>1,213</u>	<u>187</u>	<u>15.4</u>	<u>1,058</u>	<u>165</u>	<u>15.6</u>

Handsets and solutions

Due to the year-on-year growth of the shipment volume of the handsets and solutions, the revenue of this segment for 1H-2016 increased 10.0% to HK\$687.0 million (2015: HK\$ 624.7 million) as compared to that of 1H-2015. However, consumer handsets, which normally accounts for a larger proportion of shipment volume and sales, recorded a lower gross profit margin, resulting in a slight decrease in gross profit and gross profit margin during 1H-2016. The gross profit margin for this segment slightly decreased to 12.7% in 1H-2016 (2015: 14.8%). The revenue of ODM business contributed to approximately 79% of the revenue of this segment in 1H-2016 (2015: 83%).

Wireless communication modules

Due to the increasing demand for the Group's wireless communication modules from domestic and overseas markets, overall shipment in 1H-2016 have risen more than 27% as compared to the same period last year. Hence, the revenue of this segment increased year-on-year by 15.6%. Benefitting from the notable growth in sales volume of 4G modules, the gross profit margin maintained at 15.0% (2015: 15.3%) despite the declining ASP of 2G and other low-end modules.

IOT business

During 1H-2016, the Group rationalised some of the POS that incurred higher rental or did not reach the sales target and tightened the cost control of rental fees over its newly-added POS. As a result, the revenue of IOT business recorded HK\$121.6 million (2015: HK\$120.9 million) in 1H-2016 while the gross profit margin increased to 17.4% (2015: 14.5%).

Intelligent manufacturing business

During 1H-2016, the Group has continued to actively expand the intelligent manufacturing business and both revenue and gross profit recorded significant growth. However, in order to secure more customers who can afford to consume our intelligent manufacturing products, the price reduction strategy adopted amidst the fierce market competition has affected the growth in gross profit margin for the period. The revenue of this segment increased to HK\$73.5 million (2015: HK\$26.5 million) and the gross profit margin decreased to 39.0% in 1H-2016 (2015: 43.9%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2016, the Group had bank balances and cash of HK\$245.7 million (31 December 2015: HK\$298.4 million), of which 76.4% was held in Renminbi, 23.4% was held in US dollars and the remaining balance was held in Hong Kong dollars. As at 30 June 2016, the Group also had pledged bank deposits of HK\$50.6 million (31 December 2015: HK\$102.9 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\$205.3 million as at 30 June 2016 (31 December 2015: HK\$333.5 million), all of which carried 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 2016 Days	31 December 2015 Days
Inventory turnover period	114	71
Trade and notes receivables turnover period	45	33
Trade and notes payables turnover period	101	64

As at 30 June 2016, the current ratio, calculated as current assets over current liabilities, was 2.0 times (31 December 2015: 1.8 times).

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income. As at 30 June 2016, the Group has entrusted a total amount of HK\$117.3 million under certain asset management agreements for an investment period from six months to one year. During 1H-2016, the Group did not have any other security or capital investments or derivative investments.

Certain sales and purchases of inventories of the Group are denominated in US dollars. Furthermore, certain trade receivables, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. During 1H-2016, 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 2016, the Company had 2,557,896,300 ordinary shares of HK\$0.10 each in issue.

No shares of the Company has been issued or repurchased during the period under review.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2016 and 1H-2015:

	1H-2016 HK\$'M	1H-2015 HK\$'M
Net cash from operating activities	170.3	32.3
Capital expenditure	(41.8)	(7.3)
Proceeds on disposal of equipment	–	13.5
Development costs	(97.3)	(79.6)
Net (decrease) increase in bank borrowings	(127.0)	2.3
Deposits received for disposal of an associate	–	1.3
Net decrease in entrusted loan receivables	3.5	–
Advance from a director	–	54.6
Interest paid	(4.6)	(5.0)
Others	(8.1)	5.6
Net (decrease) increase in cash and cash equivalents (including pledged bank deposits and structured deposits)	(105.0)	17.7

GEARING RATIO

As at 30 June 2016, the total assets value of the Group was HK\$3,253.3 million (31 December 2015: HK\$3,396.1 million) and the bank borrowings was HK\$205.3 million (31 December 2015: HK\$333.5 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 6.3% (31 December 2015: 9.8%).

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2016, the Group had approximately 2,410 (31 December 2015: 2,600) employees. The Group operates a mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC. The Group also offers discretionary bonuses to its employees by reference to individual performance and the performance of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2016, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

FUTURE PLANS FOR MATERIAL INVESTMENT

As at 30 June 2016, the Group did not have any other plans for material investment or capital assets save as disclosed in this announcement.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the 1H-2016, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

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-2016.

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

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

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

At the annual general meeting of the Company held on 1 June 2016 (“2016 AGM”), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to an unexpected business engagement. Mr Chan Tat Wing, Richard, an executive Director and the chief finance officer of the Group, chaired the 2016 AGM on behalf of the chairman of the Board pursuant to the bye-laws of the Company and was available to answer questions. Mr Liu Hing Hung, an independent non-executive Director and the chairman of the remuneration committee of the Board and the audit committee of the Board (“Audit Committee”), was also available at the 2016 AGM to answer questions from Shareholders.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that each of them has fully complied with the required standard as set out in the Model Code during 1H-2016.

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-2016. In addition, the condensed consolidated interim financial information of the Group for 1H-2016 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 2016 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, Mr Chan Tat Wing, Richard, Mr Liu Hong and Mr Liu Jun, and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Xie Linzhen and Mr Dong Yunting.

By Order of the Board
SIM Technology Group Limited
Wong Cho Tung
Director

This announcement contains certain forward-looking statements. The words “intend”, “expect”, “anticipate”, “is confident”, and similar expressions are intended to identify forward-looking statements. These statements are not historical facts or guarantees of future performance. Actual results could differ materially from those expressed, implied or forecasted in such forward-looking statements. Such forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of the Company about the business, the industry and the market in which the Group operates, and are subject to risks, uncertainties and other factors that could significantly affect expected results.

25 August 2016

* For identification purposes only