

## GROUP FINANCIAL HIGHLIGHTS

	Unaudited consolidated		Approximate percentage of increase (decrease)
	For the six months ended 30 June		
	2006	2005	
• Turnover (HK\$ million)	1,733	927	87%
• Gross profit (HK\$ million)	280	172	63%
• Gross profit margin	16.18%	18.61%	(13%)
• Net Profit (HK\$ million)	202	110	84%
• Basic earnings per share (HK cents)	13.4	9.7	38%

# CHAIRMAN'S STATEMENT

## Business Review

### *Mobile handsets and handset design solutions*

The domestic handset market growth momentum in the People's Republic of China (the "PRC") continued and recorded approximately 15% growth in the first quarter of 2006 (CCID Consulting Company Limited). Capitalising on this strong growth momentum, the Company and its subsidiaries (the "Group") shipped 3,539,000 units of complete mobile handsets and handset design solutions in the first half of 2006 (the "current period"), a growth of 134% year-on-year.

The driver for the strong growth was the successful launch of the Group's new PDA enhanced multi-media feature phone solutions together with many series of stylish SLIM handset design solutions. In the first six months of 2006, the Group helped its customers to launch a total number of 125 new models into the market, representing a growth of 104% year-on-year.

The progress in new handset platform technologies development was encouraging. Twelve new GSM mother-board platforms were launched during the first half of 2006 as compared to 5 handset platforms launched in first half of 2005.

The handset solution customer base has continued to expand healthily. For the first half of 2006, the revenue of handset solutions of top 5 customers accounted for 38.18% as compared to 38.34% for the same period in 2005 and the same was 44.28% for the year 2005. We continue to maintain a diverse multi-customers and multi-products business model which is cost-effective and relatively reliable.

### *LCD modules*

The LCD modules business has undergone a major transformation as compared to the same period in 2005. In the first half of 2006, over 95% of the modules sold were bundled with our handset solutions. The revenue growth of 63% year-on-year was mainly caused by the change of product mix and the production of higher quality and larger LCDs, which resulted in an increase in the average LCD module price.

### *Wireless communication module solutions*

Coupled with the Group's experience in developing mobile handsets technologies, the Group is well-positioned to develop new wireless communication platforms for other industrial applications. In the first half of 2006, a growth of over 400% in the sale of wireless communication module solutions was recorded as compared to the same period of last year. Today, we believe that we are one of the market leaders in the China wireless module market and we aim to continue to maintain our market position by offering new solutions and high value-added system application supports to our customers. In order to fully capture the business opportunities in the wireless communications market, the Group has decided to set up a company with over a hundred dedicated engineering staff to focus on the development of the wireless products of the Group.

### *Design and development*

In the first half of 2006, the Group has continued to increase its investment in developing EDGE/WiFi combo, WCDMA/HSDPA, TD-SCDMA single mode and TD-SCDMA/GSM dual mode platform solutions, the engineering sampling of which are targeted to start in the second half of 2006. The total number of engineering staff as at 30 June 2006 has grown to 686 as compared to 580 as at the end of 2005.

### **Interim Dividend**

The Board has declared an interim dividend for the six months ended 30 June 2006 of HK6.8 cents per share (2005: Nil) in cash to shareholders whose names appear on the register of members of the Company on 15 September 2006 which will be paid on or about 21 September 2006.

### **Closure of Register of Members**

The Company's register of members will be closed from 13 September 2006 to 15 September 2006 (both days inclusive), during such period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on 12 September 2006.

# CHAIRMAN'S STATEMENT

## Prospects

The management is optimistic about the Group's business future. The Group will continue to enhance its business in the China handset market and will continue to develop its market share by launching the Group's latest developed high-end handset platform solutions into the international market.

The management is always conscious about the handset market dynamics and will continue to adopt prudent policies on productivity, expense control and cash flow management and aim to continuously deliver high return to our shareholders, employees and business partners.

## Appreciation

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

**Yeung Man Ying**

*Chairman*

Hong Kong, 22 August 2006

## Financial Review

For the six months ended 30 June 2006, the Group recorded a turnover of HK\$1,732.7 million (2005: HK\$926.7 million), representing a year-on-year increase of 86.97% due to the expansion of the Group's market share in the healthily growing mobile phone and wireless communication markets in China.

Under the Group's marketing and operating strategies to gain market share and maximise net profit of the Group, the gross profit of the Group increased 62.56% to HK\$280.3 million (2005: HK\$172.5 million) for the current period, while the gross profit margin of the Group dropped to 16.18% (2005: 18.61%) and the net profit margin maintained at 11.63% (2005: 11.82%).

The Group achieved a profit attributable to shareholders of HK\$201.5 million (2005: HK\$109.5 million) for the first half of 2006, representing a 83.99% year-on-year growth. The basic earnings per share for the first half of year 2006 increased by 38.14% year-on-year to HK13.4 cents (2005: HK9.7 cents).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Segment Results

	Six months ended 30 June							
	2006				2005			
	Turnover	Units shipped	Gross profit	Gross profit margin	Turnover	Units shipped	Gross profit	Gross profit margin
	HK\$'M	'000	HK\$'M	%	HK\$'M	'000	HK\$'M	%
Handset design solutions (in SKD/CKD form)	1,048	3,519	179	17.07	432	1,233	102	23.55
Complete mobile handsets	16	20	3	17.21	221	280	36	16.42
LCD modules and others	345	2,470	43	12.74	212	1,686	24	11.47
Wireless communication module solutions	324	1,300	55	16.91	62	263	10	16.50
<b>Total</b>	<b>1,733</b>	<b>7,309</b>	<b>280</b>	<b>16.18</b>	<b>927</b>	<b>3,462</b>	<b>172</b>	<b>18.61</b>

### *Complete mobile handsets and handset design solutions (in SKD/CKD form)*

The revenue for the complete mobile handsets and handset design solutions (in SKD/CKD form) for the first half of year 2006 increased by 63.08% to HK\$1,064.3 million (2005: HK\$652.6 million) as compared with the same period of last year. The Group launched 125 handset models and 12 handset platforms in the first half of 2006.

## *LCD modules and others*

The sales of LCD modules in the first half of the year 2006 increased 62.59% as compared with the same period of last year. The increase was mainly due to the increase in the sales of the high-end modules with higher average selling price.

## *Wireless communication module solutions*

The Group successfully increased its market share by capturing the strong demand for wireless module solutions in the PRC, the sales of wireless communication module solutions for the first half of year 2006 increased significantly by 422.79% as compared with the same period of last year.

## **Use of Proceeds of Global Offering**

The Company issued 375 million shares at HK\$1.7 per share in its global public offering in June 2005. The net proceeds after deducting the relevant expenses was approximately HK\$598.2 million.

During the first half of year 2006, The Group utilised the above said proceeds of HK\$22.0 million for the development of next generation mobile handsets; HK\$33.5 million for the development of the new chipset technology platforms; HK\$16.8 million for the operation of the new LCD panel back-end production and assembly line; and HK\$9.0 million for the establishment of the new design and development centre.

The balances of the proceeds have been placed in banks as short-term deposits as at 30 June 2006.

## **Liquidity, Financial Resources and Capital Structure**

Net cash inflow from operations during the period amounted to HK\$258.4 million. The Group held HK\$568.4 million (30 June 2005: HK\$731.7 million) of cash as at the end of the period under review, of which 54.21% was held in Renminbi and the remaining balance was held in United States ("US") dollars. The bank balances are expected to be used to finance the Group's working capital and capital expenditure plans in developing new technologies for mobile handsets.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2006, the Group had total bank borrowings amounting to HK\$48.7 million (31 December 2005: HK\$9.6 million) comprising factored notes receivable and denominated in Renminbi, were matured within one year. The annual interest rate on the above bank borrowings was 2.6%.

For the period under review, the Group maintained a stable turnover days for inventory, trade receivables together with notes and bills receivables and trade payables, which were 58 days, 25 days and 53 days respectively as compared to the full year of 2005 were 57 days, 26 days and 54 days respectively.

After reviewing the current financial position based on the Group's finance policy, the management of the Group considered that it was not necessary to use any financial instrument for hedging purpose nor adopt any particular hedging policy.

As at 30 June 2006, the Company had an issued capital comprising 1,506,462,000 ordinary shares of HK\$0.10 each.

## Pledge of Assets

As at 30 June 2006, the Group had total secured short-term bank borrowings amounting to HK\$48.7 million which were factored notes receivable.

## Gearing Ratio

As at 30 June 2006, the total assets value of the Group was HK\$1,687.4 million (31 December 2005: HK\$1,461.9 million) and the total bank borrowings were HK\$48.7 million (31 December 2005: HK\$9.6 million). The gearing ratio of the Group calculated as total bank borrowings over total assets, was 2.89% (31 December 2005: 0.66%).



## Employees

As at 30 June 2006, the Group had 2,072 (31 December 2005: 1,971) employees. The Group operates a defined contribution 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 regulation of the PRC. The Group also offers discretionary bonuses to its employees by reference to individual performance and the performance of the Group.

## Foreign Exchange Exposure

The Directors believe that the risk of exposure of the Group to foreign exchange is mitigated since most of the sales of the Group are denominated in Renminbi and most of the purchases of inventories are denominated in US dollars.

On the other hand, as the Renminbi's peg to US dollars has been replaced by a more elastic exchange rate regime, the Renminbi exchange rate movements might become more volatile, creating an uncertainty effect on the Group's business. The Group will continue to monitor any further changes in Renminbi's exchange rate and would proactively take measures to minimise any adverse impact that fluctuations of exchange rates might have on the Group.

## Future Plans for Material Investment

Other than the investment plans as disclosed in the prospectus of the Company in relation to the global public offering of the shares of the Company dated 21 June 2005, the Group did not have any other material investment plans as at 30 June 2006.

## Contingent Liabilities

As at 30 June 2006, the Group did not have any material contingent liabilities.

# Interim Financial Statement

## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	Six months ended 30 June	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover		1,732,717	926,727
Cost of sales		(1,452,377)	(754,272)
Gross profit		280,340	172,455
Other income		41,635	20,160
Research and development expenses		(39,928)	(17,525)
Selling and distribution costs		(21,518)	(10,338)
Administrative expenses		(47,527)	(42,168)
Finance costs		(308)	(3,774)
Profit before taxation		212,694	118,810
Taxation	5	(11,163)	(4,877)
Profit for the period	6	201,531	113,933
Attributable to:			
Equity holders of the Company		201,531	109,534
Minority interest		–	4,399
		201,531	113,933
Dividends	8	312,940	181,435
Earnings per share (HK cents)	9		
Basic		13.4 cents	9.7 cents
Diluted		13.3 cents	9.6 cents

## Interim Financial Statement

### CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	Notes	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	137,217	105,429
Land use right		10,226	10,334
Intangible assets	10	83,363	46,958
Deferred tax assets	11	2,928	2,586
		<u>233,734</u>	<u>165,307</u>
<b>Current assets</b>			
Inventories		530,910	402,409
Trade receivables	12	149,514	127,151
Notes and bills receivables	12	90,400	102,033
Other receivables, deposits and prepayments		114,451	85,137
Bank balances and cash		568,433	579,880
		<u>1,453,708</u>	<u>1,296,610</u>
<b>Current liabilities</b>			
Trade payables	13	472,727	332,389
Other payables, deposits received and accruals		129,964	91,921
Taxation payable		6,134	4,812
Bank borrowings	14	48,711	9,615
		<u>657,536</u>	<u>438,737</u>
Net current assets		<u>796,172</u>	<u>857,873</u>
		<u><u>1,029,906</u></u>	<u><u>1,023,180</u></u>

## Interim Financial Statement

	Notes	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Equity			
Share capital	15	150,646	150,000
Reserves		873,952	869,872
		1,024,598	1,019,872
Non-current liabilities			
Deferred tax liabilities	11	5,308	3,308
		1,029,906	1,023,180

# Interim Financial Statement

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Share capital HK\$'000	Share premium HK\$'000	Statutory surplus reserve HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total equity attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2005 (Note)	15	-	20,964	-	-	-	175,067	196,046	47,895	243,941
Profit and total recognised income for the period	-	-	-	-	-	-	109,534	109,534	4,399	113,933
Arising from acquisition of subsidiaries	2	-	-	46,624	-	-	-	46,626	(52,294)	(5,668)
Capitalisation of loans from shareholders on Reorganisation	78	-	-	50,622	-	-	-	50,700	-	50,700
Merger reserve arising on Reorganisation	(95)	-	-	95	-	-	-	-	-	-
Issue of shares on Reorganisation	150	-	-	(150)	-	-	-	-	-	-
Credited as fully paid from other reserve	100	-	-	(100)	-	-	-	-	-	-
Placing and public offer of shares at premium	37,500	600,000	-	-	-	-	-	637,500	-	637,500
Issue of shares by capitalisation of share premium account	112,250	(112,250)	-	-	-	-	-	-	-	-
Transaction costs attributable to issue of new shares	-	(33,590)	-	-	-	-	-	(33,590)	-	(33,590)
Recognition of equity settled share based payments	-	-	-	-	1,128	-	-	1,128	-	1,128
Dividends paid	-	-	-	-	-	-	(181,435)	(181,435)	-	(181,435)
At 30 June 2005	150,000	454,160	20,964	97,091	1,128	-	103,166	826,509	-	826,509

# Interim Financial Statement

	Share capital HK\$'000	Share premium HK\$'000	Statutory surplus reserve HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total equity attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2006	150,000	454,160	22,981	97,091	6,670	6,693	282,277	1,019,872	-	1,019,872
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	2,605	-	2,605	-	2,605
Profit for the period	-	-	-	-	-	-	201,531	201,531	-	201,531
Total recognised income for the period	-	-	-	-	-	2,605	201,531	204,136	-	204,136
Issue of shares	646	5,945	-	-	-	-	-	6,591	-	6,591
Recognition of equity settled share based payments	-	-	-	-	4,500	-	-	4,500	-	4,500
Dividends paid	-	-	-	-	-	-	(210,501)	(210,501)	-	(210,501)
At 30 June 2006	150,646	460,105	22,981	97,091	11,170	9,298	273,307	1,024,598	-	1,024,598

Note: The share capital as at 1 January 2005 represented the nominal value of the issued share capital of SIM Technology Group (BVI) Limited ("STG") prior to the reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Reorganisation"). The Company became the holding company of the Group on 3 June 2005 by issuing shares in exchange for the entire issued share capital of STG. Details of the Reorganisation are set out in the prospectus of the Company dated 21 June 2005. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 30 June 2005.

## Interim Financial Statement

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	258,446	131,199
NET CASH USED IN INVESTING ACTIVITIES	(107,684)	(31,095)
FINANCING ACTIVITIES		
Issue of shares	6,591	637,500
New bank borrowings raised	48,711	157,779
Share issue expenses	-	(33,590)
Repayment of bank borrowings	(9,615)	(85,189)
Dividends paid	(210,501)	(181,435)
Repayment to directors	-	(33,683)
Repayment to related parties	-	(28,442)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(164,814)	432,940
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,052)	533,044
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	579,880	198,652
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,605	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	568,433	731,696

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

### 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda on 27 October 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended) with limited liability. Its ultimate holding company is Info Dynasty Group Limited ("Info Dynasty"), a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacturing, design and development and sale of liquid crystal display ("LCD") modules, complete mobile handsets, handsets design solutions (in Semi Knock-Down ("SKD")/Complete Knock-Down ("CKD") form), and wireless communication module solutions.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by International Accounting Standards Board ("IASB").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current period, the Group has applied, for the first time, the new standards amendments and interpretations, that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.



### 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

IAS 1 (Amendment)	Capital disclosures <sup>1</sup>
IFRS 7	Financial instruments: Disclosures <sup>1</sup>
IFRIC – INT 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
IFRIC – INT 8	Scope of IFRS 2 <sup>3</sup>
IFRIC – INT 9	Reassessment of embedded derivatives <sup>4</sup>
IFRIC – INT 10	Interim Financial Reporting and Impairment <sup>5</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for accounting periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for accounting periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for accounting periods beginning on or after 1 June 2006.

<sup>5</sup> Effective for accounting periods beginning on or after 1 November 2006.

### 4. BUSINESS SEGMENTS

#### *Business segments*

The Group is currently organised into four revenue streams – sale of LCD modules and others, sale of wireless communication module solutions, sale of complete mobile handsets and sale of handsets design solutions (in SKD/CKD form). These revenue streams are the basis on which the Group reports its primary segment information.

# Interim Financial Statement

Segment information about these businesses is presented below:

Six months ended 30 June 2006

	Sale of LCD modules and others HK\$'000	Sale of wireless commu- nication module solutions HK\$'000	Sale of complete mobile handsets HK\$'000	Sale of handsets design solutions (in SKD/ CKD form) HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Turnover</b>						
External sales	345,168	323,293	16,238	1,048,018	-	1,732,717
Inter-segment sales	4,536	-	-	-	(4,536)	-
	<u>349,704</u>	<u>323,293</u>	<u>16,238</u>	<u>1,048,018</u>	<u>(4,536)</u>	<u>1,732,717</u>
<b>Result</b>						
Segment result	<u>33,067</u>	<u>41,294</u>	<u>2,299</u>	<u>139,035</u>	<u>-</u>	<u>215,695</u>
Unallocated other income						11,959
Unallocated corporate expenses						(14,652)
Finance costs						(308)
Profit before taxation						212,694
Taxation						(11,163)
Profit for the period						<u>201,531</u>

## Interim Financial Statement

Six months ended 30 June 2005

	Sale of LCD modules and others HK\$'000	Sale of wireless commu- nication module solutions HK\$'000	Sale of complete mobile handsets HK\$'000	Sale of handsets design solutions (in SKD/ CKD form) HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>Turnover</b>						
External sales	212,300	61,840	221,118	431,469	-	926,727
Inter-segment sales	86,234	-	-	-	(86,234)	-
	<u>298,534</u>	<u>61,840</u>	<u>221,118</u>	<u>431,469</u>	<u>(86,234)</u>	<u>926,727</u>
<b>Result</b>						
Segment result	<u>13,573</u>	<u>6,629</u>	<u>30,108</u>	<u>82,623</u>	<u>-</u>	<u>132,933</u>
Unallocated other income						724
Unallocated corporate expenses						(11,073)
Finance costs						(3,774)
Profit before taxation						<u>118,810</u>
Taxation						<u>(4,877)</u>
Profit for the period						<u><u>113,933</u></u>

# Interim Financial Statement

## 5. TAXATION

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Tax charge comprises:		
PRC income tax		
– current period	11,908	5,184
– overprovision in prior periods	(2,403)	–
Deferred tax charge (credit) (note 11)	1,658	(307)
	<u>11,163</u>	<u>4,877</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.

Pursuant to relevant laws and regulations in the People's Republic of China ("PRC"), the Company's PRC subsidiaries, Shanghai Simcom Limited ("Shanghai Simcom") and Shanghai Speedcomm Technology Limited ("Shanghai Speedcomm") are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charge provided has been made after taking these tax incentives into account. No provision for PRC income tax has been made for Shanghai Speedcomm for the period ended 30 June 2006 as the first profit marking year is the current year. No provision for PRC income tax has been made for Shanghai Simcom for the period ended 30 June 2005 as fiscal year ended 31 December 2004 is the first profit making year. Another subsidiary of the Company, Shanghai Suncom Logistics Limited is entitled to a tax rate of 15% because it was registered in the area of Shanghai Wai Gao Qiao Free Trade Zone 上海外高橋保稅區. Pursuant to a permit issued by Shanghai Tax Authority dated 21 April 2006, Shanghai Sunrise Electronic Technology Co. Ltd. ("Shanghai Sunrise") is entitled to use of a tax rate of 18% for the fiscal years 2005 and 2006 because it is classified as foreign investment enterprise engaged in technology and knowledge intensive business.

PRC income tax is calculated at 27% of estimated assessable profit of the Company's other PRC subsidiaries for both periods.

## Interim Financial Statement

### 6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting:)		
Amortisation of intangible assets (included in cost of sales)	33,576	18,925
Amortisation of land use right	108	105
Depreciation of property, plant and equipment	8,017	5,886
Less: Amount capitalised in development costs	(1,129)	(586)
	6,888	5,300
Staff costs including directors' emoluments	95,151	50,035
Less: Amount capitalised in development costs	(35,286)	(8,751)
	59,865	41,284
Write-down of inventories (included in cost of sales)	4,430	5,137
Impairment loss recognised in respect of trade receivables	713	1,442
Government subsidies	(2,892)	(25)
Refund on Value Added Tax ("VAT") (Note)	(26,000)	(18,738)
Interest income	(5,448)	(723)
Net foreign exchange (gain) loss	(6,511)	317

Note: Shanghai Simcom and Shanghai Speedcomm are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, it is entitled to a refund of VAT paid for sales of self-developed software in the PRC.

# Interim Financial Statement

## 7. SHARE OPTIONS

The Company has two share option schemes, namely the pre-initial public offering share option scheme and the post initial public offering share option scheme for directors and eligible employees of the Group. The options granted under the pre-initial public offering share option scheme are referred to as the "Pre-IPO options" and options granted under the post initial public scheme are referred to as "Post-IPO options" below. Details of the share options movements during the current period are as follows:

	Number of share options
Outstanding Pre-IPO option at the beginning of the period	40,350,000
Post IPO-options granted during the period	12,000,000
Pre-IPO options exercised during the period	(6,462,000)
Pre-IPO options and Post-IPO options lapsed during the period	(1,175,000)
Outstanding Pre-IPO options and Post-IPO options at the end of the period	<u>44,713,000</u>
Comprising:	
Pre-IPO options	32,853,000
Post-IPO options	<u>11,860,000</u>
	<u>44,713,000</u>

In the current period, share option expense of approximate HK\$4,500,000 (2005: HK\$1,128,000) has been recognised with a corresponding adjustment recognised in the Group's share option reserve.

In relation to each grantee of the Pre-IPO Options, 25% of the options will vest during the period from 1 April 2006 to 31 December 2006 and in each of the three calendar years from 1 January 2007 to 31 December 2009. An option may be exercised by the grantee at any time during the period of ten years commencing on the date of grant.

In relation to each grantee of the Post-IPO Options, 25% of the options will vest in each of the four calendar years from 1 January 2007 to 31 December 2010. An option may be exercised by the grantee at any time during the period of ten years commencing on the date of grant.

## Interim Financial Statement

The fair values of Post-IPO Options and Pre-IPO Options determined at the date of grant using the Black-Scholes option pricing model was approximately HK\$16,070,000 and HK\$28,000,000 respectively.

The following assumptions were used to calculate the fair values of share options:

	Post-IPO Options	Pre-IPO Options
Share price (Note i)	HK\$3.65	HK\$1.70
Exercise price	HK\$3.675	HK\$1.02
Expected life of options (Note ii)	6 years	10 years
Expected volatility (Note iii)	68.0%	33.3%
Expected dividend yield	6.4%	3.9%
Risk free rate	3.8%	3.8%

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. The changes in subjective input assumptions can materially affect the fair value estimate.

Notes:

- (i) In 2006, the share price used equal to the Company's share price at the date of grant of the Post-IPO Options. In 2005, the share price was estimated to be HK\$1.7 per share, which is equal to the offer price of the listing shares.
- (ii) The expected options life is 10 years and 6 years from the date of grant for Pre-IPO Options and Post-IPO Options respectively.
- (iii) In 2006 the expected volatility was determined by calculating the historical volatility of the Company's share price over 90 trade days immediately before the date of grant for Post-IPO share options. In 2005 the expected volatility was determined by calculating the historical volatility of the price of listed companies with similar business as the Group, due to lack of historical data.

# Interim Financial Statement

## 8. DIVIDENDS

	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Final dividend paid (Note)	210,501	-
Dividends paid by a subsidiary to its then shareholders prior to the Reorganisation	-	181,435
	210,501	181,435
Interim dividend, declared – HK6.8 cents per share	102,439	-
	312,940	181,435

Note: Final dividend of HK14 cents per share was paid to shareholders as the final dividend for the year ended 31 December 2005.



## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the Company)	201,531	109,534
	'000	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,502,356	1,127,072
Share options	16,202	17,600
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,518,558	1,144,672

Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has been accounted for the effect of the share based payments for the options with dilutive effect.

The calculation of weighted average number of ordinary shares for the six months ended 30 June 2005 were based on the assumption that the Reorganisation had been completed on 1 January 2005.

# Interim Financial Statement

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$39,880,000 (1 January 2005 to 30 June 2005: HK\$19,203,000).

During the period, additions to the Group's intangible assets amounted to approximately HK\$69,981,000 (1 January 2005 to 30 June 2005: HK\$21,020,000).

## 11. DEFERRED TAXATION

The followings are the major deferred tax assets and liabilities recognised by the Group and movement thereon during the current and prior reporting period.

	Development cost capitalised HK\$'000	Allowance for inventories and trade receivables HK\$'000
At 1 January 2005	–	3,108
Credit to income statement	–	307
At 30 June 2005	–	3,415
At 1 January 2006	(3,308)	2,586
(Charge) credit to income statement	(2,000)	342
At 30 June 2006	(5,308)	2,928

## Interim Financial Statement

### 12. TRADE RECEIVABLES, NOTES AND BILLS RECEIVABLES

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Trade receivables	157,543	134,516
Less: Accumulated impairment	(8,029)	(7,365)
	<u>149,514</u>	<u>127,151</u>
Notes and bills receivable	<u>90,400</u>	<u>102,033</u>

The normal credit period taken on sales of goods is 0 – 30 days. The following is an aged analysis of trade receivables and notes and bills receivable at the reporting date:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
0 – 30 days	105,824	103,347
31 – 60 days	33,041	17,555
61 – 90 days	7,186	3,812
91 – 180 days	1,061	2,126
Over 180 days	2,402	311
Trade receivables	<u>149,514</u>	<u>127,151</u>
0 – 30 days	88,602	77,735
31 – 60 days	1,798	5,640
61 – 90 days	–	433
91 – 180 days	–	8,610
Over 180 days	–	9,615
Notes and bills receivable (Note)	<u>90,400</u>	<u>102,033</u>

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

## Interim Financial Statement

### 13. TRADE PAYABLES

The nominal credit period taken for trade purchases is 30-60 days. The following is an aged analysis of trade payables at the reporting date:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
0 – 30 days	165,806	180,139
31 – 60 days	175,774	104,226
61 – 90 days	79,405	22,412
Over 90 days	51,742	25,612
	<u>472,727</u>	<u>332,389</u>

### 14. BANK BORROWINGS

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Bank borrowings due within one year – secured	<u>48,711</u>	<u>9,615</u>

Bank borrowings of HK\$48,711,000 (2005: HK\$9,615,000) were secured by notes receivable of the Group.

## 15. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2006 and 30 June 2006	3,000,000	300,000
Issued:		
At 1 January 2006	1,500,000	150,000
Exercise of share options (Note)	6,462	646
At 30 June 2006	1,506,462	150,646

Note: During the period, the Company issued a total of 6,462,000 new shares of HK\$0.10 each at a price of HK\$1.02 per share to eligible employees upon exercise of share options.

The shares which were issued during the period rank *pari passu* with each other in all respects.

# Interim Financial Statement

## 16. ACQUISITION OF SUBSIDIARIES

On 24 January 2006, the Group acquired 100% equity interests in Max Vision Limited and its wholly-owned subsidiary for a consideration of HK\$2.

The net assets acquired in the transactions are as follows:

	HK\$'000
Other receivables, deposits and prepayments	241
Bank balances and cash	2,110
Other payables, deposits received and accruals	(2,351)
	<hr/>
Total consideration satisfied by cash	-
	<hr/> <hr/>
Net cash inflow arising from acquisition of subsidiaries	
Cash consideration paid	-
Bank balances and cash	2,110
	<hr/>
	2,110
	<hr/> <hr/>

## 17. OPERATING LEASE ARRANGEMENT

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Within one year	6,771	6,803
In the second to fifth year inclusive	8,072	9,260
	<hr/>	<hr/>
	14,843	16,063
	<hr/> <hr/>	<hr/> <hr/>

## 18. CAPITAL COMMITMENTS

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
<hr/>		
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– building construction	–	18,507
	<hr/>	<hr/>
Capital expenditure authorised but not contracted for:		
– building construction	–	4,174
	<hr/>	<hr/>

## 19. RELATED PARTY TRANSACTIONS

During the period ended 30 June 2006, the Group had not entered into any related party transactions.

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
<hr/>		
Commission fee paid to a related company		
– Shanghai Xinzhan Limited (Note a)		
上海鑫展信息設備工程有限公司	–	192
Interest expense paid to a related company		
– Shanghai Sunrise Display Limited (Note b)		
上海晨顯電子有限公司	–	552
	<hr/>	<hr/>

# Interim Financial Statement

Notes:

- (a) Mr Wong Cho Tung and Ms Yeung Man Ying, directors of the Company, have full voting control power of Shanghai Xinzhan Limited.
- (b) Mr Wong Cho Tung and Ms Yeung Man Ying, directors of the Company, are the beneficial owners of this company.

Mr Wong Cho Tung and Ms Yeung Man Ying are directors of the Company.

The remuneration of key management during the period was as follow:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Short term benefits	2,577	1,634
Post employment benefits	87	96
Share based payments	812	244
	<u>3,476</u>	<u>1,974</u>

## 20. EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group had entered into a contract to purchase a land use right at a consideration of approximately RMB50,000,000 (approximately HK\$48,077,000). The land use right will be used to construct the Group's new research and development centre in the coming years.



### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES

As at 30 June 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or the shares, underlying shares or debentures of any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, were as follows:

(a) Interest in the shares of the Company and the shares of associated corporation of the Company

Name of director	Name of corporation	Nature of interests	Total number of ordinary shares	Approximate percentage of interest in the corporation
Mr Wong Cho Tung	Company	Corporate interest (Note 1)	1,010,000,000	67.04% (Note A)
	Info Dynasty	Personal interests	1,000	49.95%
Ms Yeung Man Ying	Company	Corporate interest (Note 2)	893,675,000	59.32% (Note A)
	Info Dynasty	Personal interests	1,000	49.95%
Mr Wong Hei, Simon	Info Dynasty	Personal interests	1	0.05%
Mr Wong Sun	Info Dynasty	Personal interests	1	0.05%
Mr Tsang Hen Loon, Raymond	Company	Personal interests	750,000	0.05% (Note A)
Mr Zhang Jianping	Company	Personal interests	750,000	0.05% (Note A)
Ms Tang Rongrong	Company	Personal interests	86,000	0.01% (Note A)

Note A: Calculation based on the issued share capital of 1,506,462,000 shares of the Company as at 30 June 2006.

## Other Information

Notes:

1. Mr Wong Cho Tung ("Mr Wong") controls more than one-third of the voting power of Info Dynasty. Mr Wong is therefore deemed to be interested in all the 893,675,000 shares held by Info Dynasty. Both Simcom Limited ("Simcom (BVI)") and Intellipower Investments Limited ("Intellipower") are wholly-owned by Mr Wong and he is therefore deemed to be interested in all the 48,825,000 shares and 67,500,000 shares held by Intellipower and Simcom (BVI) in the Company, respectively.
2. Ms Yeung Man Ying ("Mrs Wong") controls more than one-third of the voting power of Info Dynasty. Mrs Wong is therefore deemed to be interested in all the 893,675,000 shares held by Info Dynasty in the Company.

### (b) Interest in the underlying shares of equity derivatives of the Company

Please see the section headed "Share Options" on pages 35 to 38 of this report for information of the interests of the directors and chief executive of the Company in the underlying shares of the equity derivatives of the Company as at 30 June 2006.

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholders had notified the Company of their interest in the issued share capital of the Company:

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of interest in the Company (Note A)
Info Dynasty Group Limited	Beneficial interest	893,675,000	59.32%
Mr Wong Cho Tung (Note 1)	Corporate interest	1,010,000,000	67.04%
Ms Yeung Man Ying (Note 2)	Corporate interest	893,675,000	59.32%
	Family interest	116,325,000	7.72%
Sansar Capital Management, LLC (Note 3)	Corporate interest	90,430,000	6.00%

Note A: Calculation based on the issued share capital of 1,506,462,000 shares of the Company as at 30 June 2006.

Notes:

1. Mr Wong Cho Tung ("Mr Wong") controls more than one-third of the voting power of Info Dynasty. Mr Wong is therefore deemed to be interested in all the 893,675,000 shares held by Info Dynasty. Since both Simcom (BVI) and Intellipower are wholly-owned by Mr Wong, he is therefore deemed to be interested in all the 48,825,000 shares and 67,500,000 shares held by Intellipower and Simcom (BVI) in the Company, respectively.
2. Ms Yeung Man Ying ("Mrs Wong") controls more than one-third of the voting power of Info Dynasty. Mrs Wong is therefore deemed to be interested in all the 893,675,000 shares held by Info Dynasty. Since Mrs Wong is the spouse of Mr Wong, she is deemed to be interested in all the 48,825,000 shares and 67,500,000 shares held by Intellipower and Simcom (BVI) in the Company, respectively, in which Mr Wong is deemed to be interested.
3. Sansar Capital Management, LLC is interested in 90,430,000 shares in the capacity of investment manager.

### SHARE OPTIONS

- (a) The Company granted share options under the pre-listing share option scheme adopted by the Company on 30 May 2005 ("Pre-IPO Share Option Scheme") to certain directors and employees of the Group to subscribe for 44,000,000 shares in the Company. In relation to each grantee of the options granted under the Pre-IPO Share Option Scheme, 25% of his options will be vested during the period from 1 April 2006 to 31 December 2006 and in each of the three years from 1 January 2007 to 31 December 2009. Subject to the vesting period above and the terms of the Pre-IPO Share Option Scheme, an option may be exercised by the grantee at any time during the period of ten years commencing on the date of grant.

## Other Information

Under the Pre-IPO Share Option Scheme, certain directors and employees of the Company have personal interests in share options which had been granted to them to subscribe for shares in the Company as follow:

Name of director	Date of grant	Exercise price per share HK\$	Weighted average closing share price immediately before the exercise date HK\$	Outstanding as at 1 January 2006	Granted during the six months ended 30 June 2006	Exercised during the six months ended 30 June 2006	Lapsed during the six months ended 30 June 2006	Outstanding as at 30 June 2006
Tsang Hen Loon, Raymond	30 May 2005	1.02	3.87	3,000,000	-	(750,000)	-	2,250,000
Zhang Jianping	30 May 2005	1.02	3.87	3,000,000	-	(750,000)	-	2,250,000
Tang Rongrong	30 May 2005	1.02	3.87	750,000	-	(186,000)	-	564,000
Other employees of the Group	30 May 2005	1.02	3.87	33,600,000	-	(4,776,000)	(1,035,000)	27,789,000
				<u>40,350,000</u>	<u>-</u>	<u>(6,462,000)</u>	<u>(1,035,000)</u>	<u>32,853,000</u>

- (b) The Company adopted a share option scheme ("Share Option Scheme") on 30 May 2005, pursuant to which it may grant share options to eligible participants (as defined in the Share Option Scheme) to subscribe for shares in the Company at a price which shall be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets on the grant date; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the grant date and (iii) the nominal value of the shares. No consideration is required to be paid by the grantee for the grant of options. The maximum number of shares in respect of which options might be granted under the Share Option Scheme must not exceed 10% of the shares in issue as at the listing date (30 June 2005) and in any event the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company should not exceed 30% of the issued share capital of the Company from time to time. No options may be granted if such grant will result in this 30% limit being exceeded. In relation to each grantee of the options granted under the Share Option Scheme, 25% of his options will be vested in each of the four calendar years from 1 January 2007 to 31 December 2010.

On 12 May 2006, the Company granted options under the Share Option Scheme to employees of the Group to subscribe for an aggregate of 12,000,000 shares in the Company. The closing price of the Company's shares immediately before the date on which the options were granted was HK\$3.8.

Name of grantee	Date of grant	Exercise price per share HK\$	Outstanding as at 1 January 2006	Granted during	Exercised during	Lapsed during	Outstanding as at 30 June 2006
				the six months ended 30 June 2006	the six months ended 30 June 2006	the six months ended 30 June 2006	
Other employees of the Group	12 May 2006	3.675	-	12,000,000	-	(140,000)	11,860,000

No option granted under the Pre-IPO Share Option Scheme and Share Option Scheme was cancelled during the six-month period ended 30 June 2006.

## Other Information

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements that enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and save as disclosed in this report, none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercise any such right during the period.

### **PURCHASE, SALES OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the current period.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions laid down in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the period under review.

### COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they have fully complied with the required standards as set out in the Model Code for the period under review.

### AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the accounting principles and practice adopted by the Group and discussed with the management auditing, financial reporting matters with management and has reviewed the unaudited interim financial report for the six months ended 30 June 2006. In addition, the condensed consolidated financial statements of the Company for the six months ended 30 June 2006 have been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu and an unqualified review report was issued. The Audit Committee comprises the three independent non-executive directors of the Company.

# Corporate Information

## BOARD OF DIRECTORS

### *Executive Directors*

Ms YEUNG Man Ying (*Chairman*)

Mr WONG Cho Tung

Mr TSANG Hen Loon, Raymond

Mr ZHANG Jianping

Mr WONG Hei, Simon

Mr WONG Sun

Ms TANG Rongrong

### *Independent non-executive Director*

Mr HENG Kwo Seng

Mr WANG Chengwei

Mr ZHUANG Xingfang

## AUDIT COMMITTEE

Mr HENG Kwo Seng (*Chairman*)

Mr WANG Chengwei

Mr ZHUANG Xingfang

## REMUNERATION COMMITTEE

Mr ZHUANG Xingfang (*Chairman*)

Mr WANG Chengwei

Mr WONG Cho Tung

## QUALIFIED ACCOUNTANT

Mr CHAN Tat Wing, Richard *CGA*

## COMPANY SECRETARY

Mr CHAN Yee Tak

## AUDITORS

Deloitte Touche Tohmatsu

## LEGAL ADVISER

Norton Rose

## PRINCIPAL BANKERS

Hang Seng Bank Limited

Bank of Communications

Shanghai Pudong Development Bank

## REGISTERED OFFICE

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2 Church Street

Hamilton HM 11

Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 5005-5006, 50th Floor

Central Plaza

No. 18 Harbour Road

Wanchai

Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Shops 1712-16, 17th Floor,

Hopewell Centre

183 Queen's Road East, Wanchai, Hong Kong.

## WEBSITE ADDRESS

<http://www.sim.com>