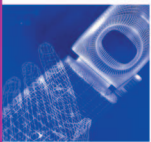




# SIM TECHNOLOGY GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 2000)



## GROUP FINANCIAL HIGHLIGHTS

	Unaudited consolidated		Approximate percentage of decrease
	For the six months ended 30 June		
	2007	2006	
• Revenue (HK\$ million)	1,113	1,733	36%
• Gross profit (HK\$ million)	149	280	47%
• Gross profit margin	13.43%	16.18%	17%
• Net Profit (HK\$ million)	90	202	55%
• Basic earnings per share (HK cents)	5.9	13.4	56%

# CHAIRMAN'S STATEMENT

## Business Review

### *Transformation of mobile handset solutions*

The first half of 2007 was challenging for the global handset industry. The revenue and the gross profit margin for mobile handsets were affected by the average selling price erosion even though mobile handset demand remained steady. The management was well aware of the change of the market condition since the down cycle started in May 2006. During the second half of 2006 and the first half of 2007, the Group continued to invest its resources to speed up the research and development ("R&D") for new high performance mobile handset solutions. Together with our service capability, the Group targets to expand high value added services offered to its global customers.

#### 1. High margin and high performance mobile handset solutions development

In the first half of 2007, the Group continued to maintain a tight headcount and expense control strategy. The Group had kept the total number of staff within 2000 with continuous improvement in productivity and performance in all aspects. Also with an effective deployment of R&D resources during the current period, we had launched many new products with latest technologies into the market like China 3G TD-SCDMA dual mode solutions, Smartphone solutions and 3.5G HSDPA modem solutions. We also provided support to our international customers on new mobile handset projects development. As a result, the engineering resources deployed for mature products like feature phones for the China market reduced.

#### 2. High margin NRE and royalty income business development

The Group has allocated more resources to provide mobile handset design services to tier one handset OEM manufacturers in China and global handset OEM manufacturers. As a result, the Group's NRE (non-recurring engineering charge) and royalty income grew steadily during the current period. In 2006, the design service projects were mostly feature phone solutions for the China market. In the first half of 2007, the handset projects have extended their coverage into high end China 3G TD solutions, WiFi solutions, Smartphone solutions and mobile-TV solutions. Overall, the average royalty income per mobile handset solution has increased and with those high end solutions design contracts signed in the first half of 2007, we believe our royalty income will continue to ramp up in the near future.

### 3. Positioning the LCD module business for "touch panel" application

In the first half of 2007, the Group successfully developed touch screen products. This is critical to maintaining a competitive cost structure for future touch screen display module business. The trend of using larger TFT screens with touch panel in future will help to improve the average selling price and gross profit margin for our LCD module business. However, there was a reduction in our LCD module unit price in the first half of 2007 as many Chinese customers began to source their own camera heads and speakers (which were originally components of our LCD modules and were included in our average selling price of the LCD modules).

### *Continuous strengthening of wireless communication module business globally*

The performance of our wireless communication module business unit was encouraging during the current period. Capitalising on the strong global market share position, cost effectiveness stemming from standardisation of GSM/GPRS wireless communication modules and winning new designs in European industrial application market, these factors compensated the drop in average selling price of the products. The year-on-year gross profit increased mainly due to the improvement of gross profit margin and the increase in sales volume.

### **Interim Dividend**

The Board has declared an interim dividend for the six months ended 30 June 2007 of HK3.0 cents per share in cash (2006: HK6.8 cents per share) to shareholders whose names appear on the Register of Members of the Company on 21 September 2007 and will be paid on or about 28 September 2007.

# CHAIRMAN'S STATEMENT

## Closure of Register of Members

The Company's Register of Members will be closed from 19 September 2007 to 21 September 2007 (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 4:30 p.m. on 18 September 2007.

## Prospects

The management believes the growth of the global mobile handset demand will maintain steady in the coming years with a significant growth in the areas of newly developed technologies like WiFi combo solutions for FMC fix mobile convergent applications, China 3G TD-SCDMA, 3.5G WCDMA/HSDPA and Smartphone and mobile-TV handset.

During the current period, the management was delighted to have Mr Tony Li (CEO-China operation) joining us. Also, following the acquisition of Shanghai BaseCom Ltd in July 2007, we have Mr Edward Fu (GM for Shanghai BaseCom Ltd) and a team of 150 well-experienced engineers team joining our R&D family.

Together with our continuous increase in customers on a global scale, the management is optimistic about our business.

## 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 contribution throughout the period.

**Yeung Man Ying**

*Chairman*

Hong Kong, 30 August 2007

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Financial results

For the six months ended 30 June 2007, under the price pressure in the global and PRC wireless communications industry, as a result, the Group's revenue decreased 35.77% to HK\$1,112.9 million (For the six months ended 30 June 2006 ("1H-2006"): HK\$1,732.7 million; for the six months ended 31 December 2006 ("2H-2006"): HK\$1,686.2 million) as compared with that of the same period last year.

The gross profit of the Group decreased 46.69% to HK\$149.4 million (1H-2006: HK\$280.3 million; 2H-2006: HK\$223.7 million) for the current period. The gross profit margin dropped to 13.43% (1H-2006: 16.18%; 2H-2006: 13.26%) as compared to 1H-2006 because of the average selling price erosion of the mobile-handset solutions in the China market.

The profit for the period declined by 55.39% year-on-year to HK\$89.9 million (1H-2006: HK\$201.5 million; 2H-2006: HK\$171.4 million) for the six months ended 2007. The basic earnings per share dropped 55.97% year-on-year to HK5.9 cents (2006: HK13.4 cents).

### Segment results

	Six months ended 30 June							
	2007				2006			
	Revenue HK\$'M	Unit shipped '000	Gross profit HK\$'M	Gross profit margin %	Revenue HK\$'M	Unit shipped '000	Gross profit HK\$'M	Gross profit margin %
Mobile handset solutions and others	692	4,020	76	11.05	1,064	3,539	182	17.07
LCD modules and components	179	2,065	13	7.26	345	2,470	43	12.74
Wireless communication module solutions	242	1,441	60	24.76	324	1,300	55	16.91
<b>Total</b>	<b>1,113</b>	<b>7,526</b>	<b>149</b>	<b>13.43</b>	<b>1,733</b>	<b>7,309</b>	<b>280</b>	<b>16.18</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Mobile handset solutions and others*

For the first half of 2007, the Group shifted more R&D resources to high performance product development like China 3G, Mobile-TV and Smartphone handset solutions, which volume demands are expected to increase in the near future. As a result of reducing product development for feature phones market in China, the revenue for the mobile handset solutions during this transition period decreased by 35.04% to HK\$691.4 million (1H-2006: HK\$1,064.3 million; 2H-2006: HK\$1,114 million) as compared with that of 1H-2006. The Group has launched 67 handset models and 17 handset platforms during the current period (1H-2006:125 handset models, 11 handset platforms; 2H-2006: 144 handset models, 18 handset platforms). The gross profit margin dropped to 11.05% (1H-2006:17.07%; 2H-2006: 12.73%) attributable to the continued pricing pressure on the feature phones.

## *LCD modules and components*

In the first half of 2007, the average selling price of LCD modules dropped 37.88% as compared to that of 1H-2006 and the gross profit margin dropped to 7.26% (1H-2006: 12.74%; 2H-2006: 2.4%). These were primarily due to the sourcing of their own camera heads and speakers by our customers.

## *Wireless communication module solutions*

In the current period, the effective cost management and international market expansion of the Group for the wireless communication business compensated the drop in average selling price of the products. Consequently, the Group's gross profit margin for wireless communication module solutions maintained at 24.76% (1H-2006: 16.91%; 2H-2006: 32.41%), while the gross profit amounted to HK\$60 million (1H-2006: HK\$54.7 million; 2H-2006: HK\$73.5 million).

## 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 2007, The Group utilised the above said proceeds of HK\$10.8 million for the development of the latest mobile handset design solutions; HK\$33.2 million for the development of the new chipset technology platforms and HK\$15 million on for the operation of the new LCD panel back-end production and assembly line.

The balances of the proceeds have been placed in banks as short-term deposits as at 30 June 2007.

## Liquidity, Financial Resources and Capital Structure

The financial position of the Group remains strong and healthy. As at 30 June 2007, the Group had bank balances of HK\$603.3 million (31 December 2006: HK\$822.7 million), of which 79.05% was held in Renminbi, 17.68% was held in United States ("US") dollars and the remaining balance was held in Hong Kong dollars. The bank balances are expected to finance the Group's working capital and capital expenditure plans in developing new technologies for mobile handsets.

As at 30 June 2007, the Group had no bank borrowings (31 December 2006: Nil).

For the period under review, the Group's turnover period for inventory, trade receivables together with notes and bills receivable, and trade payables were increased to 77 days, 22 days and 97 days respectively as compared to the full year of 2006 were 54 days, 19 days and 61 days respectively. The turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

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 2007, the Company had an issued capital comprising 1,515,268,000 ordinary shares of HK\$0.10 each.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Gearing Ratio

As at 30 June 2007, the total assets value of the Group was HK\$1,532.6 million (31 December 2006: HK\$1,833.9 million) and there was no bank borrowings (31 December 2006: Nil). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 0% (31 December 2006: 0%).

## Employees

As at 30 June 2007, the Group had 1,980 (31 December 2006: 1,903) 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 regulations of the PRC. The Group also offers discretionary bonus to its employees by reference to individual performance and the performance of the Group.

## Charges on Group Assets

As at 30 June 2007, there were no charges on the Group's assets.

## 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, with the introduction of a more elastic exchange rate regime for Renminbi, the Renminbi exchange rate movements might become more volatile, creating an uncertainty effect on the Group's business. Furthermore, certain trade receivables and bank balances are denominated in US dollars, therefore exposing the Group to US dollars currency risk. The Group does not have a foreign currency hedging policy but 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 2007.

## Contingent Liabilities

As at 30 June 2007, the Group did not have any material contingent liabilities.

# Interim Financial Statements

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue		1,112,927	1,732,717
Cost of sales		(963,484)	(1,452,377)
Gross profit		149,443	280,340
Other income		36,466	41,635
Research and development expenses		(30,727)	(39,928)
Selling and distribution costs		(29,763)	(21,518)
Administrative expenses		(38,325)	(47,527)
Finance costs		(576)	(308)
Profit before taxation		86,518	212,694
Tax credit (charge)	4	3,378	(11,163)
Profit for the period	5	89,896	201,531
Dividends recognised as distribution	6	158,906	210,501
Earnings per share	7		
Basic		HK5.9 cents	HK13.4 cents
Diluted		HK5.9 cents	HK13.3 cents

# Interim Financial Statements

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	Notes	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	167,799	157,231
Land use right	8	50,929	10,484
Intangible assets	8	107,469	113,356
Deferred tax assets	9	3,870	3,031
Deposit paid for purchase of land use right		–	7,465
		<b>330,067</b>	<b>291,567</b>
<b>Current assets</b>			
Inventories		357,218	462,736
Trade receivables	10	134,754	110,307
Notes and bills receivable	10	12,021	18,787
Other receivables, deposits and prepayments		95,228	127,820
Bank balances and cash		603,266	822,696
		<b>1,202,487</b>	<b>1,542,346</b>
<b>Current liabilities</b>			
Trade payables	11	338,335	576,449
Other payables, deposits received and accruals		96,780	119,349
Taxation payable		2,292	10,284
		<b>437,407</b>	<b>706,082</b>
<b>Net current assets</b>			
		<b>765,080</b>	<b>836,264</b>
		<b>1,095,147</b>	<b>1,127,831</b>
<b>Equity</b>			
Share capital	12	151,527	150,833
Reserves		934,934	969,314
		<b>1,086,461</b>	<b>1,120,147</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	8,686	7,684
		<b>1,095,147</b>	<b>1,127,831</b>

# Interim Financial Statements

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share capital HK\$'000	Share premium HK\$'000	Statutory surplus reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total equity attributable to equity holders of the Company HK\$'000
At 1 January 2006	150,000	454,160	22,981	97,091	6,670	6,693	282,277	1,019,872
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	2,605	-	2,605
Profit for the period	-	-	-	-	-	-	201,531	201,531
Total recognised income for the period	-	-	-	-	-	2,605	201,531	204,136
Issue of new shares due to exercise of share options	646	5,945	-	-	-	-	-	6,591
Recognition of equity settled share based payments	-	-	-	-	4,500	-	-	4,500
Dividends paid	-	-	-	-	-	-	(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
At 1 January 2007	150,833	463,497	26,713	97,091	14,163	29,421	338,429	1,120,147
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	23,707	-	23,707
Profit for the period	-	-	-	-	-	-	89,896	89,896
Total recognised income for the period	-	-	-	-	-	23,707	89,896	113,603
Issue of new shares due to exercise of share options	694	6,387	-	-	-	-	-	7,081
Transfer upon exercise of share options	-	8,043	-	-	(8,043)	-	-	-
Transfer upon forfeiture of share options	-	-	-	-	(446)	-	446	-
Recognition of equity settled share based payments	-	-	-	-	4,536	-	-	4,536
Dividends paid	-	-	-	-	-	-	(158,906)	(158,906)
At 30 June 2007	151,527	477,927	26,713	97,091	10,210	53,128	269,865	1,086,461

## Interim Financial Statements

Notes:

- (a) As stipulated by the relevant the People's Republic of China ("PRC") laws and regulations, before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund. The reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.
- (b) Other reserve arose from a reorganisation to rationalise the structure of the Group in preparation for listing of the Company shares on the Main Board of The Stock Exchange of Hong Kong Limited.

# Interim Financial Statements

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (audited)
NET CASH FROM OPERATING ACTIVITIES	34,434	258,446
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(17,839)	(39,880)
Inception of land lease	(32,725)	-
Expenditure on intangible assets	(65,864)	(69,981)
Acquisition of subsidiaries	-	2,110
Proceeds from disposal of property, plant and equipment	7	67
NET CASH USED IN INVESTING ACTIVITIES	(116,421)	(107,684)
FINANCING ACTIVITIES		
Issue of shares	7,081	6,591
New bank borrowings raised	-	48,711
Repayment of bank borrowings	-	(9,615)
Dividends paid	(158,906)	(210,501)
NET CASH USED IN FINANCING ACTIVITIES	(151,825)	(164,814)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(233,812)	(14,052)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	822,696	579,880
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	14,382	2,605
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	603,266	568,433

# Interim Financial Statements

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda as a limited 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 and components, mobile handset solutions and wireless communication module solutions.

The functional currency of the Company is Renminbi. The condensed financial statements are presented in Hong Kong dollar (HK\$), as the Board considers that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the shareholders.

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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

### 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 2006.

In the current period, the Group has applied, for the first time, the new standard, amendment and interpretations, ("new IFRSs") issued by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are effective for the Group's financial year beginning 1 January 2007.

## Interim Financial Statements

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

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

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

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

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

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

The adoption of these new IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

IAS 23 (Revised)	Borrowing costs <sup>1</sup>
IFRS 8	Operating segments <sup>1</sup>
IFRIC 11	IFRS 2 – Group and treasury share transactions <sup>2</sup>
IFRIC 12	Service concession arrangements <sup>3</sup>
IFRIC 13	Customer loyalty programmes <sup>4</sup>
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008.

The Board anticipates that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.



# Interim Financial Statements

## 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

### *Business segments*

The Group currently organised into three revenue streams - sale of mobile handset solutions, sale of LCD modules and components and sale of wireless communication module solutions. These revenue streams are the basis on which the Group reports its primary segment information.

Sale of complete mobile handsets was reported as a separate segment in the prior accounting periods. Because of the shifting in demand of complete mobile handsets in the current period, it was no longer satisfied the quantitative threshold for segment reporting and hence not to report separately in the current period.

Segment information about these businesses is presented below:

Six months ended 30 June 2007

	Sale of mobile handset solutions HK\$'000	Sale of LCD modules and components HK\$'000	Sale of wireless communication module solutions HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue					
External sales	691,388	179,233	242,306	-	1,112,927
Result					
Segment result	35,655	5,236	47,580	(268)	88,203
Unallocated other income					10,071
Unallocated corporate expenses					(11,180)
Finance costs					(576)
Profit before taxation					86,518
Tax credit					3,378
Profit for the period					89,896

## Interim Financial Statements

Six months ended 30 June 2006

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

# Interim Financial Statements

## 4. TAX CREDIT (CHARGE)

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
<hr/>		
Tax credit (charge) comprises:		
PRC Enterprise Income Tax		
– current period	(3,100)	(11,908)
– overprovision in prior periods	6,478	2,403
Deferred tax charge (note 9)	-	(1,658)
	<hr/>	<hr/>
	3,378	(11,163)
	<hr/>	<hr/>

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 taking relevant tax incentives into account.

# Interim Financial Statements

## 5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	75,545	33,576
Amortisation of land use right	108	108
Depreciation of property, plant and equipment	12,638	8,017
Less: Amount capitalised in development costs	(1,555)	(1,129)
	11,083	6,888
Staff costs including directors' emoluments	86,980	95,151
Less: Amount capitalised in development costs	(37,518)	(35,286)
	49,462	59,865
Write-down of inventories	13,299	4,430
(Reversal of) impairment recognised in respect of trade receivables	(2,131)	713
Government subsidies	(348)	(2,892)
Refund on Value Added Tax ("VAT") (Note)	(16,728)	(26,000)
Interest income	(3,998)	(5,448)
Net foreign exchange gain	(14,870)	(6,511)

Note: The Group's subsidiaries, Shanghai Simcom Limited and Shanghai Speedcomm Technology Limited are engaged in the business of distribution of self-developed and produced software. Under the current PRC tax regulation, they are entitled to a refund of VAT paid for sales of self-developed software in the PRC.

# Interim Financial Statements

## 6. DIVIDENDS

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Dividends recognised as distribution – HK10.5 cents (2006: HK14.0 cents) per share	<b>158,906</b>	210,501
Interim dividend, declared – HK3.0 cents (2006: HK6.8 cents) per share	<b>45,458</b>	102,439

## 7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	<b>89,896</b>	201,531
<b>Number of shares</b>	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,512,641</b>	1,502,356
Share options	<b>11,104</b>	16,202
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,523,745</b>	1,518,558

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.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHT AND INTANGIBLE ASSETS

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$17,839,000 (1 January 2006 to 30 June 2006: HK\$39,880,000).

During the period, additions to the Group's land use right amounted to approximately HK\$40,190,000 (1 January 2006 to 30 June 2006: nil).

During the period, additions to the Group's intangible assets amounted to approximately HK\$65,864,000 (1 January 2006 to 30 June 2006: HK\$69,981,000).

## 9. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised by the Group and movement thereon during the current and prior reporting periods:

	Development cost capitalised HK\$'000	Allowance for inventories and trade receivables HK\$'000	Total HK\$'000
At 1 January 2006	(3,308)	2,586	(722)
(Charge) credit to income statement	(2,000)	342	(1,658)
At 30 June 2006	(5,308)	2,928	(2,380)
At 1 January 2007	(7,684)	3,031	(4,653)
(Charge) credit to income statement	(782)	782	-
Exchange differences	(220)	57	(163)
At 30 June 2007	(8,686)	3,870	(4,816)

# Interim Financial Statements

## 10. TRADE RECEIVABLES AND NOTES AND BILLS RECEIVABLE

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0 – 30 days	126,311	89,394
31 – 60 days	1,766	15,423
61 – 90 days	4,885	2,191
91 – 180 days	738	2,646
Over 180 days	1,054	653
Trade receivables	<u>134,754</u>	<u>110,307</u>
0 – 30 days	7,990	17,518
31 – 60 days	2,060	1,269
61 – 90 days	1,765	–
91 – 180 days	206	–
Notes and bills receivable (Note)	<u>12,021</u>	<u>18,787</u>

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

## 11. 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 2007 HK\$'000	31 December 2006 HK\$'000
0 – 30 days	237,681	499,105
31 – 60 days	45,550	45,542
61 – 90 days	17,332	2,938
Over 90 days	37,772	28,864
	<b>338,335</b>	<b>576,449</b>

## 12. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2007 and 30 June 2007	3,000,000	300,000
Issued:		
At 1 January 2007	1,508,326	150,833
Exercise of share options (Note)	6,942	694
At 30 June 2007	1,515,268	151,527

Note: During the period, the Company issued a total of 6,942,000 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 Statements

## 13. 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 2007 HK\$'000	31 December 2006 HK\$'000
Within one year	7,338	8,194
In the second to fifth year inclusive	447	4,417
	<b>7,785</b>	<b>12,611</b>

## 14. COMMITMENTS

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
<b>Capital commitment</b>		
Expenditure contracted for but not provided in the financial statements in respect of:		
– building construction	898	–
<b>Other commitment</b>		
Expenditure contracted for but not provided in the financial statements in respect of:		
– land use right	–	42,301

## 15. SHARE OPTION SCHEMES

The Company had the share option schemes, including pre-initial public offering share option scheme (the "Pre-IPO Options") and post-initial public share option scheme (the "Post-IPO Options") for directors and eligible employees of the Group.

Details of the movement of the options under Pre-IPO Options and Post-IPO Options are as follows:

	Pre-IPO Options	Post-IPO Options
Outstanding at 1 January 2007	26,799,000	9,270,000
Exercised during the period	(6,942,000)	–
Forfeited during the period	(1,000,000)	(465,000)
Outstanding at 30 June 2007	18,857,000	8,805,000

Fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current period, an amount of share option expense of approximately HK\$4,536,000 (2006: HK\$4,500,000) has been recognised with a corresponding adjustment recognised in the Group's share option reserve.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$2.96 per share.

# Interim Financial Statements

## 16. RELATED PARTY TRANSACTIONS

The remuneration of key management other than the directors' remuneration during the period was as follows:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Short term benefits	4,234	2,577
Post employment benefits	120	87
Share based payments	618	812
	<b>4,972</b>	<b>3,476</b>

## 17. EVENT AFTER THE BALANCE SHEET DATE

On 20 July 2007, the Group acquired 100% equity interest in Sino Team Investments Limited, a company principally engaged in design and development of mobile handset solutions in the PRC, for a consideration of HK\$70,000,000.

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

As at 30 June 2007, 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 corporations of the Company**

Name of director	Name of corporation	Nature of interest	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	66.65% (Note A)
	Company	Family interest	220,000	0.01% (Note A)
Ms Yeung Man Ying	Info Dynasty	Personal interest	1,000	49.95%
	Company	Corporate interest (Note 2)	1,010,000,000	66.65% (Note A)
	Company	Personal interest	220,000	0.01% (Note A)
Mr Wong Hei, Simon	Info Dynasty	Personal interest	1,000	49.95%
	Info Dynasty	Personal interest	1	0.05%
Mr Wong Sun	Info Dynasty	Personal interest	1	0.05%
Mr Tsang Hen Loon, Raymond	Company	Personal interest	1,500,000	0.1% (Note A)
Mr Zhang Jianping	Company	Personal interest	1,500,000	0.1% (Note A)
Ms Tang Rongrong	Company	Personal interest	186,000	0.01% (Note A)

Note A: Calculation based on the issued share capital of 1,515,268,000 shares of the Company as at 30 June 2007.

## 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. Mrs Wong is the spouse of Mr Wong and she will be taken to be interested in the interests of Mr Wong by virtue of Part XV of SFO.

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

Please see the section headed "Share Options" on pages 29 to 31 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 2007.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, 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	Beneficial interest	893,675,000	58.98%

Note A: Calculation based on the issued share capital of 1,515,268,000 shares of the Company as at 30 June 2007.

## 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 Options 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.

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 follows:

Category of participants	Date of grant	Exercise price per share HK\$	Outstanding as at 1 January 2007	Granted during the six months ended 30 June 2007	Exercised during the six months ended 30 June 2007	Lapsed during the six months ended 30 June 2007	Outstanding as at 30 June 2007
<b>Directors</b>							
Mr Tsang Hen Loon, Raymond	30 May 2005	1.02	2,250,000	-	(750,000)	-	1,500,000
Mr Zhang Jianping	30 May 2005	1.02	2,250,000	-	(750,000)	-	1,500,000
Ms Tang Rongrong	30 May 2005	1.02	564,000	-	(100,000)	-	464,000
			5,064,000	-	(1,600,000)	-	3,464,000
Employees of the Group	30 May 2005	1.02	21,735,000	-	(5,342,000)	(1,000,000)	15,393,000
			<u>26,799,000</u>	<u>-</u>	<u>(6,942,000)</u>	<u>(1,000,000)</u>	<u>18,857,000</u>

## Other Information

(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 Options 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.

Category of participants	Date of grant	Exercise price per share HK\$	Outstanding as at 1 January 2007	Granted	Exercised	Lapsed during	Outstanding as at 30 June 2007
				during the six months ended 30 June 2007	during the six months ended 30 June 2007	the six months ended 30 June 2007	
Employees of the Group	12 May 2006	3.675	9,270,000	-	-	(465,000)	8,805,000

No option granted under the Pre-IPO Share Option Scheme and Share Option Scheme was cancelled during the six-month period ended 30 June 2007.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$2.96 per share.

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**

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 of the Listing Rules during the current period.

### **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 standard as set out in the Model Code for the period under review.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practice adopted by the Group and discussed auditing, financial reporting matters including the review of the unaudited interim financial report for the six months ended 30 June 2007. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2007 have been reviewed by our auditor, 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 Directors*

Mr HENG Kwoo Seng

Mr WANG Chengwei

Mr ZHUANG Xingfang

## AUDIT COMMITTEE

Mr HENG Kwoo 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 Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank Limited

Bank of Communications

Shanghai Pudong Development Bank

## REGISTERED OFFICE

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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

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