SIM Technology

SIM Technology Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 2000)

MARKET AND BUSINESS REVIEW

Business Review

Looking back at the year 2013, SIM Technology Group Limited ("Company") and its subsidiaries ("Group") has passed through the most challenging time in its history. The Group has formulated and implemented a strategy of "focusing on the high-end ODM handset business and pursuing expansion into new business areas". The Group has adhered to a "high value added" business direction and has subsequently withdrawn from the low-end ODM consumer handset business, which had targeted the telecom service operator procurement market. At the same time, it has accelerated the development of high-end products as well as its attention to targeting high-end markets and customers, including exploring business opportunities with international brands for consumer handsets.

In the first half of 2014, the Group seized the opportunities presented by the transition of the handset industry from 3G to 4G to promote the Group's new self-developed products to domestic and overseas quality customers. Thanks to the strong R&D capability of the Group and the diligence and dedication of its staff, the strategic initiative has begun to yield results. During the period under review, the Group has completed the mass production and delivery of several high-end ODM projects for international customers. Despite being affected by a serious quality issue in some key materials, which had rarely occurred previously, the handsets and solutions business of the Group still recorded greater growth due to these projects.

Driven by stronger demands for the Group's 3G/4G new products in overseas markets, the revenue of the wireless communication modules business has steadily increased. Moreover, the Group has made significant progress in the development of new businesses such as the Internet of Things (IOT) terminals and backend software application systems. While most of the new businesses have yet to contribute to the Group's business results, those businesses with a well-defined profitability model and potentials for replication have solidified the foundation of the Group for sustainable growth in its business results.

Summarizing the above factors, the Group achieved a turnaround to a profit in its overall business during the first half of 2014.

CHAIRMAN'S STATEMENT

Handsets and solutions

In the first half of 2014, the Group has continued to adhere to its strategy of focusing on the quality ODM handset business and completed large-scale production and delivery of high-end ODM consumer handset consignments for several international and domestic customers (including Acer, Vestel and 壹人壹本). Consequently, the Group's handsets business has advanced out of the loss making condition which lasted in the past two years. While the Group missed the opportunity to create an even greater gross profit improvement owing to aberrant and serious material quality issues in the first half of 2014, the Group's handsets and solutions business nonetheless achieved a remarkable performance and recorded substantial growth. Overall delivery volume of the handsets declined as compared to the same period last year, but both sales and gross profit of the handsets and solutions business recorded a year-on-year increase. Such increase was mainly attributable to a year-on-year rise in the sales volume of high-end consumer handsets and industrial application terminals during the year in contrast to a greater sales volume of low margin products to domestic operators in the same period last year.

With the advent of the 4G LTE era, the Group started boosting its investment in the R&D of 4G solutions last year. Currently, more than 80% of its R&D resources were allocated to the development of 4G handsets and terminals. The Group will commence mass production of more than 10 models of 4G terminals in the second half of the year. Thus the Group has moved to the forefront of the industry in 4G development and product planning. Leveraging its first-mover advantage in 4G solutions, the Group will quickly expand its domestic and overseas customer base to provide ODM services to more quality customers while reaping the results derived from the growth of the 4G market with its clients.

Benefitting from the demand trends of the IOT and the mobile office, the industry mobile terminal market is expected to grow steadily in the long run. In particular, due to the rising concern about information security, the government authorities, state-owned companies and larger private companies have gradually shifted to choosing domestic suppliers and brands. Meanwhile, due to the increasing potential threat from terrorism, the demand for equipment designed for police and security applications is expected to see stable growth in the short to medium term. Moreover, the demand for terminals has shown notable growth in the mobile payment and mobile POS industries in recent years. To tap the opportunity presented by these developments, in the first half of 2014, the Group has cooperated with a branded company in the United States of America ("US") to produce waterproof, dust-proof and shock resistant mobile terminals with an anti-explosion feature. The new product is expected to be delivered to telecom operators in North America such as AT&T, Bell and Telas in the second half of 2014. Besides, the Group is developing new products based on the handset version of another large telecom operator in the US, which are expected to be delivered in the first half of 2015. Meanwhile, the Group's own branded mobile terminal products specially designed for use in logistics, finance and medical care industries have gained traction in those market sectors. The Group is sparing no effort to locate more quality customers both domestically and overseas, thereby laying a strong foundation for its business development in the second half of the year and next year.

Wireless communication modules

For the first half of 2014, the Group recorded growth in the overall delivery volume and revenue of the wireless communication modules business. The growth was attributable to increase in demands of the domestic and overseas markets in a different degree. The relatively higher delivery volume of 2G products in China and Europe, along with faster growth in delivery volume of high value 3G products in North America and Japan have boosted the overall sales of this business. In face of the intense price competition in the traditional 2G product segment, the Group has added a new platform to its existing 2G product platform to cater for the customers' demand for solutions targeted at more sub-market segments. The new platform has been rolled out to both domestic and overseas markets. At the 3G/4G platform level, the Group has enriched its product range, which enabled it to widen the gap with its peers and meet the rising demand for 3G/4G LTE solutions in the overseas market, thereby gaining the recognition and confidence of overseas operators and top-tier customers in the Group's brand (SIMCom). For the solutions which are operator-oriented, the Group has continued to strengthen cooperation through customised projects with overseas operators and brands such as AT&T, SOFTBANK, Coyote and Panasonic. In domestic markets, the modules and terminals used by China Mobile for optimizing networks and on-site testing of 4G networks in 2014 were mostly provided by the Group.

Display and touch panel modules

Since 2013, the higher-than-expected drop in the price of touch panel module products along with the dramatic change in the technology of touch panels have resulted in a substantial loss in the business. Therefore, the Group has decided to reduce the operation scale at the end of 2013. In the first half of this year, the Group has cleared the slow moving materials and equipment production lines for display and touch panel modules. The Group expects to finish the clearance of materials in inventory and equipment by the end of the year. As the Group has placed great emphasis on developing high-end consumer and industry ODM businesses, it has begun to procure display and touch panel module products from external suppliers to meet the internal demand of the Group.

Internet of Things (IOT) business

As for the high-end ODM handset business, the Group is actively developing new strategies and has actually begun implementation as it develops business in this segment. The Group is leveraging its industry-leading technologies in big data, cloud computing, mobile internet and IOT to develop a cloud computing and big data service platform to address the healthcare needs for the elderly living alone. The platform can be used in smart homes, community property management, interaction between primary school students and their parents, families and schools. Besides, the Group aims to revamp traditional vending machines into one-stop multi-functional devices that provide various convenient services such as product selling, advertisements, logistics, e-commerce, financial services and web-surfing. The "intelligence" of these machines beyond the so-called "smart terminal" offers new hope for the industry, and has bright prospects. Currently, more than 20 franchisees have signed agreements for cooperation which cover more than 3,000 vending machines, of which 1,300 are under financial leasing. The management expects these numbers to grow further by the end of this year and its aim is to become the leader in the industry next year.

Production and manufacturing

Starting from 2014, the Group's manufacturing department has begun to take external production orders. In 1H-2014, this external production orders recorded revenue of HK$11.1 million, with a manufacturing cost of HK$9.1 million (excluding the cost of mobile handsets of the Group undertaken by the manufacturing department).

Despite the rising labour cost, the Group has insisted on standard production operations which places it at a disadvantage in a labour intensive industry. Therefore, since 2014, the Group has decided to revamp the areas with significant manpower requirements in the handset production lines, starting from the automation of PCBA examination after SMT procedure. At the beginning of this year, the Group revised and optimised the solution for automation of production lines over a half-year period and has extended automation elsewhere in the handset production process.

The Group believes that it is inevitable for the manufacturing industry to increase the scope of automation and artificial intelligence in China. In the future, the Group hopes to replicate its own successful experience for other players in the handset manufacturing industry, assist the industry peers to realise the automated and intelligent production lines transformation and turn it into one of the core businesses of the Group.

Property development

Shenyang City

As at 30 June 2014, Phase I of "The Riverside Country" (晨興 • 翰林水郡), which is located in Shenyang City, PRC, has a total of 404 residential units, of which 383 units had been sold while in the completed sections of Phases II and III, 490 and 6 units were also sold respectively. The sales recognised in the first half of 2014 amounted to HK$57.5 million (2013: HK$71.6 million) and the gross profit margin was 27.4% (2013: 24.0%).

Taizhou City

The Group intends to develop a land parcel in Taizhou City, PRC into an "intelligent residential district" with the project designated an "IOT and New Generation Energy Model Residential Area." As at the date of this report, approximately 80% of the construction in Phase I has been completed and is expected to be on sale in the market in the second half of 2014.

Interim dividend

The board ("Board") of directors of the Company ("Directors") does not recommend the payment of interim dividend to the shareholders of the Company ("Shareholders") for the six months ended 30 June 2014.

PROSPECTS

Mobile phones are no longer purely a communication tool in the contemporary society but has become a necessary portable "smart" device for daily life and work. New technologies and functions are developed continuously with rapid frequency. Therefore, the Group believes that its positioning in the high-end ODM consumer business will enjoy more business opportunities and greater scope for development in the future. In view of the rapid uptake of 4G technology around the world, in particular the tremendous growth of 4G networks in China, North America and Japan, is expected to generate revenue for the Group in the future. Therefore, the management believes that the consumer handset and industrial application ODM businesses will remain as the major profit drivers for the Group in the next two years.

In wireless communication modules, the Group is continuing to expand its market share in China and overseas. Capitalising on its 2G/3G cost advantage, it has developed diverse product ranges covering AMI, telematics and mobile payment sectors in an effort to maximise its market share in China. For overseas business, the Group will launch its 3G/4G new products and work with overseas operators on customised projects. The Group believes that the shipment volume, sales amount and profit will deliver notable growth in the second half of this year and next year.

Regarding the IOT business, the Group will accelerate its contribution in value-added services for the emerging intelligent vending machine industry, so as to expand the scale of business related to this sector and generate more profit, as well as adopt a franchise business model to swiftly expand its cope of business. On top of this, the Group will continue to develop and engage in incorporating artificial intelligence elements into residential and commercial properties, as well as the IOT projects relating to the elderly, transportation and education aspects.

The management is confident that its high-end handset and industrial application ODM businesses will deliver strong growth momentum. As it expands its scope of business, this momentum together with the growth driver created by the new businesses positions would enable the Group to continuously and steadily grow in the coming years.

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 reporting period.

Yeung Man Ying
Chairman

Hong Kong, 28 August 2014

FINANCIAL REVIEW

For the six months ended 30 June 2014 ("1H-2014"), the revenue of the Group was HK$925.4 million (2013: HK$786.6 million), in which the revenue from sale of handsets and solutions, wireless modules, display modules and internet of things business ("core business") increased significantly by 21.4% to HK$867.9 million (2013: 715.0 million) as compared with that of the first half of 2013 ("1H-2013"). The increase in the revenue of core business was mainly attributable to the significant increase in the revenue of handsets and solutions business in 1H-2014. The revenue from the sale of residential units in Shenyang, PRC was HK$57.5 million (2013: HK$71.6 million) in 1H-2014.

The gross profit for 1H-2014 for core business of the Group increased substantially year-on-year by 94.8% to HK$112.1 million (2013: HK$57.6 million). The gross profit margin for core business increased to 12.9% (2013: 8.1%). The increase was mainly attributable to the rise in the sales volume of high-end consumer handsets and industrial application terminals in 1H-2014, which were with higher gross profit margin. The overall gross profit margin of the Group for 1H-2014 was 13.8% (2013: 9.5%).

As a result of the increase in revenue and the reduction in overall operating expenses in 1H-2014, the Group achieved a turnaround to a profit attributable to owners of the Company of HK$5.0 million (2013: loss of HK$126.0 million). The basic earnings per share for 1H-2014 was HK0.2 cents (2013: loss per share of HK5.0 cents).

Segment results of core business

	Six months ended 30 June 2014			Six months ended 30 June 2013		
	Revenue HK$'M	**Gross profit (loss) HK$'M**	**Gross profit (loss) margin %**	Revenue HK$'M	Gross profit HK$'M	Gross profit margin %
Handsets and solutions	**618**	**82**	**13.4%**	408	23	5.6%
Wireless communication modules	**228**	**34**	**15.0%**	217	34	15.5%
Display modules	**15**	**(5)**	**(33.6%)**	90	1	1.3%
Internet of things business	**7**	**1**	**4.2%**	–	–	–
Total	**868**	**112**	**12.9%**	715	58	8.1%

Handsets and solutions

During 1H-2014, the Group completed large-scale production and delivery of high-end ODM handset consignments for several international and domestic customers. As a result, the revenue for handsets and solutions increased significantly year-on-year by 51.5% to HK$618.3 million (2013: HK$408.1 million). In addition, the sales proportion of high-end consumer handsets and industrial application terminals increased substantially, which were with higher gross profit margin, as compared to the sale of low margin products to domestic operators in 1H-2013, hence the gross profit margin for this segment increased to 13.4% (2013: 5.6%) in 1H-2014. The revenue of ODM business contributed to approximately 81% of the revenue of this segment in 1H-2014 (2013: 53%).

Wireless communication modules

The revenue for wireless communication modules in 1H-2014 increased by 5.0% as compared to that of 1H-2013, while the gross profit margin maintained at 15.0% (2013: 15.5%). This was attributable to an increase in demand in wireless communication modules of the domestic and overseas markets. The relatively higher delivery volume of 2G products in China and Europe, along with faster growth in delivery volume of high value 3G products in North America and Japan have boosted the overall sales of this segment in 1H-2014.

Display modules

The Group has decided to reduce the operation scale of the display modules business at the end of 2013. In 1H-2014, the Group has cleared the slow moving materials for display and touch panel modules. As a result, the revenue for this segment in 1H-2014 decreased significantly as compared to 1H-2013 and incurred a gross loss for 1H-2014.

Internet of things business

The revenue of this new business segment amounted to HK$6.9 million in 1H-2014 and the gross profit margin was 4.2%. In 1H-2014, more than 20 franchisees have signed agreements for cooperation which cover more than 3,000 vending machines, of which 1,300 are under financial leasing.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

At 30 June 2014, the Group had bank balances and cash of HK$210.3 million (31 December 2013: HK$255.4 million), among of which 63.5% was held in Renminbi, 35.7% was held in US dollars and the remaining balance was held in Hong Kong dollars. The Group also had pledged bank deposits of HK$98.6 million (31 December 2013: HK$80.8 million) in Renminbi for the purpose of the Group's US dollars borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including bank deposits, property, plant and equipment, notes receivables and land use rights) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK$320.3 million (31 December 2013: HK$191.8 million), all of which were denominated in US dollars and at floating interest rates.

Operating Efficiency

The turnover period of inventory, trade receivables, notes receivables and trade and notes payables of the Group for the core business are presented below:

	30 June 2014 Days	31 December 2013 Days
Inventory turnover period	**58**	59
Trade receivables period	**63**	66
Notes receivables period	**2**	10
Trade and notes payables period	**77**	93

To secure the procurement by the Group, the deposit paid to suppliers in 1H-2014 had been increased. As a result, the turnover period of the trade and notes payables decreased in 1H-2014.

As at 30 June 2014, the current ratio, calculated as current assets over current liabilities, was 1.9 times (31 December 2013: 2.0 times).

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income. As at 30 June 2014, the Group has entrusted a total amount of HK$162.5 million under certain asset management agreements for an investment period from six months to two years. During 1H-2014, the Group did not have any other security or capital investments or derivative investments.

During 1H-2014, the management of the Group considered that it was not necessary to use any financial instrument for hedging purpose or adopt any particular hedging policy.

As at 30 June 2014, the Company had 2,557,498,500 ordinary shares of HK$0.10 each in issue.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2014 and 1H-2013:

	1H-2014 **HK$' million**	1H-2013 HK$' million
Net cash used in operating activities	**(102.3)**	(131.4)
Capital expenditure	**(11.2)**	(55.7)
Development costs	**(62.1)**	(45.7)
Net increase in bank borrowings	**128.5**	180.2
Investment in an associate	**–**	(30.0)
Deposits received for disposal of an associate	**13.1**	–
Investment in entrusted loan receivables	**(37.5)**	(50.6)
Others	**12.2**	(0.6)
Net decrease in cash and cash equivalents (including pledged bank deposits and structured deposit)	**(59.3)**	(132.6)

GEARING RATIO

As at 30 June 2014, the total assets value of the Group was HK$3,023.9 million (31 December 2013: HK$2,858.6 million) and the bank borrowings was HK$320.3 million (31 December 2013: HK$191.8 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 10.6% (31 December 2013: 6.7%).

EMPLOYEES

As at 30 June 2014, the Group had approximately 2,560 (31 December 2013: 2,500) employees. The Group operates a mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC. The Group also offers discretionary bonuses to its employees by reference to individual performance and the performance of the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set by the human resources department. The Group seeks to provide remuneration packages on the basis of the merit, qualifications and competence of the employees.

The emoluments of the Directors and senior management of the Company are reviewed by the remuneration committee of the Board, having regard to factors including the Group's operating results, responsibilities of the Directors and senior management and comparable market statistics.

The Company has adopted a pre-listing share option scheme ("Pre-IPO Share Option Scheme") to recognise and reward the contribution of certain Directors and employees of the Group to the growth and development of the Group. The Group has also adopted a post-listing share option scheme ("Post-IPO Share Option Scheme"), the primary purpose of which is to motivate the eligible persons referred to in the scheme, which includes executive Directors and employees of the Group, to optimise their future contributions to the Group and to reward them for their efforts.

FOREIGN EXCHANGE EXPOSURE

Most of the sales of the Group are denominated in Renminbi and most of the purchases of inventories are denominated in US dollars. 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, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. The Group does not have a foreign currency hedging policy but will continue to monitor any further changes in Renminbi's exchange rate and will proactively take measures to minimise any adverse impact that fluctuations of exchange rates may have on the Group.

FUTURE PLANS FOR MATERIAL INVESTMENT

As at 30 June 2014, the Group did not have any other plans for material investment or capital assets save as disclosed in this report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the 1H-2014, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liabilities.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTES	Six months ended 30 June 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Revenue	3	**925,372**	786,605
Cost of sales		**(797,488)**	(711,882)
Gross profit		**127,884**	74,723
Other income	5	**34,627**	29,080
Other gains and losses	5	**5,432**	(16,430)
Research and development expenses		**(72,119)**	(109,190)
Selling and distribution costs		**(38,696)**	(43,918)
Administrative expenses		**(41,357)**	(54,975)
Share of results of an associate		**–**	158
Finance costs		**(2,728)**	(685)
Profit (loss) before taxation		**13,043**	(121,237)
Tax charge	6	**(2,871)**	(4,966)
Profit (loss) for the period	7	**10,172**	(126,203)
Profit (loss) for the period attributable to:			
Owners of the Company		**4,977**	(125,957)
Non-controlling interests		**5,195**	(246)
		10,172	(126,203)
Earnings (loss) per share (HK cents)	9		
Basic		**0.2**	(5.0)
Diluted		**0.2**	(5.0)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit (loss) for the period	**10,172**	(126,203)
Other comprehensive (expense) income		
Items that may not be subsequently reclassified to profit or loss for the period:		
Exchange difference arising on translation to presentation currency	**(25,338)**	13,304
Surplus on transfer of land use rights and property, plant and equipment to investment properties at fair value	**–**	11,031
Deferred tax liabilities on surplus on transfer of land use rights and property, plant and equipment to investment properties at fair value	**–**	(2,758)
	(25,338)	21,577
Total comprehensive expense for the period	**(15,166)**	(104,626)
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(18,592)**	(105,453)
Non-controlling interests	**3,426**	827
	(15,166)	(104,626)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	NOTES	30 June 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
Non-current assets			
Investment properties	10	**314,263**	319,066
Property, plant and equipment	10	**490,019**	542,478
Land use rights		**105,985**	93,972
Intangible assets	10	**71,725**	48,281
Interest in an associate	11	**–**	28,967
Deferred tax assets	12	**47,427**	49,344
Finance lease receivables		**5,118**	–
Entrusted loan receivables	13	**75,000**	125,900
Deposits paid for acquisition of land use rights		**–**	16,065
Available-for-sale investments		**16,875**	16,875
		1,126,412	1,240,948
Current assets			
Inventories		**288,082**	196,806
Finance lease receivables		**2,162**	–
Properties under development for sales		**525,797**	483,710
Properties held for sale		**15,367**	22,932
Trade and notes receivables	14	**390,872**	228,356
Other receivables, deposits and prepayments		**249,829**	317,652
Entrusted loan receivables	13	**87,500**	–
Pledged bank deposits		**98,604**	80,776
Structured deposit		**–**	32,000
Bank balances and cash		**210,315**	255,440
		1,868,528	1,617,672
Asset classified as held for sale	11	**28,967**	–
		1,897,495	1,617,672

	NOTES	30 June 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
Current liabilities			
Trade and notes payables	15	**391,671**	321,937
Other payables, deposits received and accruals		**220,071**	250,703
Amount due to a non-controlling shareholder of a subsidiary	16	**35,000**	30,720
Bank borrowings	17	**320,331**	191,804
Tax payable		**1,326**	1,504
		968,399	796,668
Liability associated with asset classified as held for sale	11	**13,063**	–
		981,462	796,668
Net current assets		**916,033**	821,004
Total assets less current liabilities		**2,042,445**	2,061,952
Capital and reserves			
Share capital	18	**255,750**	255,750
Reserves		**1,608,544**	1,625,197
Equity attributable to owners of the Company		**1,864,294**	1,880,947
Non-controlling interests		**81,527**	78,101
Total equity		**1,945,821**	1,959,048
Non-current liabilities			
Deferred tax liabilities	12	**51,527**	54,404
Deferred income		**45,097**	48,500
		96,624	102,904
		2,042,445	2,061,952

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Statutory surplus reserve HK$'000 (Note a)	Shareholders' contribution HK$'000 (Note c)	Other reserve HK$'000 (Note b)	Share option reserve HK$'000	Properties revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013 (audited)	170,500	749,467	27,599	166,971	97,091	26,410	73,739	2,282	255,575	512,605	2,082,239	89,634	2,171,873
Loss for the period	-	-	-	-	-	-	-	-	-	(125,957)	(125,957)	(246)	(126,203)
Other comprehensive income for the period	-	-	-	-	-	-	8,273	-	12,231	-	20,504	1,073	21,577
Total comprehensive income (expense) for the period	-	-	-	-	-	-	8,273	-	12,231	(125,957)	(105,453)	827	(104,626)
Transfer upon the completion of Rights Issue (note c)	85,250	81,721	-	(166,971)	-	-	-	-	-	-	-	-	-
Recognition of equity settled share based payments	-	-	-	-	-	2,135	-	-	-	-	2,135	-	2,135
At 30 June 2013 (unaudited)	255,750	831,188	27,599	-	97,091	28,545	82,012	2,282	267,806	386,648	1,978,921	90,461	2,069,382
At 1 January 2014 (audited)	**255,750**	**831,188**	**27,599**	**-**	**97,091**	**30,624**	**82,012**	**2,282**	**279,093**	**275,308**	**1,880,947**	**78,101**	**1,959,048**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,977**	**4,977**	**5,195**	**10,172**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,569)**	**-**	**(23,569)**	**(1,769)**	**(25,338)**
Total comprehensive income (expense) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,569)**	**4,977**	**(18,592)**	**3,426**	**(15,166)**
Transfer upon forfeiture of share options	**-**	**-**	**-**	**-**	**-**	**(1,560)**	**-**	**-**	**-**	**1,560**	**-**	**-**	**-**
Recognition of equity settled share based payments	**-**	**-**	**-**	**-**	**-**	**1,939**	**-**	**-**	**-**	**-**	**1,939**	**-**	**1,939**
At 30 June 2014 (unaudited)	**255,750**	**831,188**	**27,599**	**-**	**97,091**	**31,003**	**82,012**	**2,282**	**255,524**	**281,845**	**1,864,294**	**81,527**	**1,945,821**

Notes:

(a) As stipulated by the relevant laws and regulations of the People's Republic of China (the "PRC"), before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation to the statutory surplus reserve fund (except where the reserve has reached 50% of the subsidiaries' registered capital). 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 is arisen from a reorganisation in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

(c) During the year ended 31 December 2012, the Company announced the issue of rights shares on the basis of one rights share for every two existing shares held at subscription price of HK$0.20 per rights share (the "Rights Issue") and 852,499,500 rights shares would be issued by the Company upon the completion of the Rights Issue. Net proceeds of HK$166,971,000 (including the expenses incurred on Rights Issue of HK$3,529,000) was received from shareholders and was accounted as shareholders' contribution and accumulated in equity as at 31 December 2012. On 4 January 2013, 852,499,500 rights shares were issued by the Company and the amount was transferred from shareholder's contribution to share capital and share premium, accordingly.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	**88,511**	26,015
Increase in properties under development for sales and properties held for sales	**(42,158)**	(132,694)
Other movements in working capital	**(146,805)**	(9,977)
Cash used in operations	**(100,452)**	(116,656)
Interest received	**2,045**	1,345
Tax paid	**(3,827)**	(16,108)
NET CASH USED IN OPERATING ACTIVITIES	**(102,234)**	(131,419)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(11,247)**	(44,912)
Proceeds on disposal of property, plant and equipment	**8,737**	647
Expenditure paid for intangible assets	**(62,056)**	(45,667)
Investment in an associate	**–**	(30,000)
Consideration received for disposal of an associate	**13,063**	–
Deposits paid for purchase of land use right	**–**	(10,753)
Investment in entrusted loan receivables	**(37,500)**	(50,600)
Withdrawal of structured deposit	**32,000**	–
Placement of pledged bank deposits	**(63,229)**	(31,580)
Withdrawal of pledged bank deposits	**43,508**	–
NET CASH USED IN INVESTING ACTIVITIES	**(76,724)**	(212,865)

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
New bank borrowings raised	**322,879**	230,927
Repayments of bank borrowings	**(189,292)**	(50,767)
Interest paid	**(2,728)**	(685)
Advance from a non-controlling shareholder of a subsidiary	**5,000**	–
Refund to shareholders on overscription of Rights Issue	**–**	(480,489)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**135,859**	(301,014)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(43,099)**	(645,298)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**255,440**	1,019,173
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(2,026)**	667
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**210,315**	374,542

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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

The company is an investment holding company. The principal activities of its subsidiaries are manufacturing, design and development and sale of display modules, handsets and solutions, and wireless communication modules, property development and carrying out internet of things business in the PRC.

The functional currency of the Company is Renminbi ("RMB"). The condensed consolidated financial statements are presented in Hong Kong dollar, as the directors consider that such presentation is more appropriate for a company listed in Hong Kong and for the convenience of the shareholders.

The condensed consolidated financial statements of the Group 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 and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain properties, which are measured at fair values. Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to International Financial Reporting Standards ("IFRSs") issued by IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC-Int 21	Levies

Amendments to IAS 36 Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 "Fair Value Measurements".

With the application of the amendments, the recoverable amounts of display modules CGU had not been disclosed in the condensed consolidated financial statements.

Except as described above, the application of the other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in the condensed consolidated financial statements.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2013 were authorised for issuance and are not yet effective:

Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations[1]
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation[1]
IFRS 15	Revenue from contracts with customers[2]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017

The directors anticipate that the application of these amendments will have no material impact on the results and the financial position of the Group.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold net of discounts and sales related taxes and income from equipment financial leasing.

4. SEGMENT INFORMATION

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

In the six months ended 30 June 2013, the Group was organised into four reportable and operating segments – sale of handsets and solutions, sale of display modules, sale of wireless communication modules and property development. In the current interim period, the Group started internet of things business. The new operation aims to provide customers from specific vertical industries with total system solutions encompassing backend software and terminal systems. The executive directors considered this is a separate reportable and operating segment to the Group.

Six months ended 30 June 2014

	Sale of handsets and solutions HK$'000	Sale of display modules HK$'000	Sale of wireless communication modules HK$'000	Property development HK$'000	Internet of things business HK$'000 (Note)	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue								
External sales	618,291	14,438	228,233	57,472	6,938	925,372	-	925,372
Inter-segment sales	-	345	-	-	-	345	(345)	-
Total	618,291	14,783	228,233	57,472	6,938	925,717	(345)	925,372
Segment profit (loss)	9,440	(16,431)	4,790	7,612	137	5,548	-	5,548
Other income and other gains and losses								21,495
Corporate expenses								(11,272)
Finance costs								(2,728)
Profit before taxation								13,043

Six months ended 30 June 2013

	Sale of handsets and solutions HK$'000	Sale of display modules HK$'000	Sale of wireless communication modules HK$'000	Property development HK$'000	Segment total HK$'000	Elimination HK$'000	Consolidated HK$'000
Revenue							
External sales	408,083	89,633	217,330	71,559	786,605	-	786,605
Inter-segment sales	-	5,207	-	-	5,207	(5,207)	-
Total	408,083	94,840	217,330	71,559	791,812	(5,207)	786,605
Segment (loss) profit	(122,750)	(27,187)	5,845	8,252	(135,840)	-	(135,840)
Other income and other gains and losses							26,569
Share of results of an associate							158
Corporate expenses							(11,439)
Finance costs							(685)
Loss before taxation							(121,237)

Inter-segment sales are charged at mutually agreed terms.

Note: The internet of things business is still in a developing stage in the current interim period. Revenue represents the income from equipment financial leasing and sale of goods to vending machine customers and franchisees.

Segment result represents the financial result by each segment without allocation of rental income, interest income, certain other income, certain net exchange gain, share of results of an associate, corporate expenses, gain from changes in fair value of investment properties, finance costs and taxation.

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
Segment assets		
Sale of handsets and solutions	**861,134**	656,728
Sale of display modules	**142,448**	139,405
Sale of wireless communication modules	**394,376**	387,222
Property development	**616,730**	616,636
Internet of things business	**16,317**	–
Total segment assets	**2,031,005**	1,799,991
Segment liabilities		
Sale of display modules	**13,618**	98,400
Property development	**165,372**	175,384
Internet of things business	**4,345**	–
Attributable to operating segment other than sale of display modules, property development and internet of things business (Note)	**478,484**	317,424
Total segment liabilities	**661,819**	591,208

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than investment properties, certain property, plant and equipment, certain land use rights, interest in an associate, entrusted loan receivables, deposits paid for acquisition of land use rights, pledged bank deposits, structured deposits, bank balances and cash, available-for-sale investments, deferred tax assets and certain other receivables, deposits and prepayments. Assets used jointly by reportable and operating segments are allocated on the basis of the revenues earned by individual operating segments.

Note: Other than liabilities specifically identified for reportable and operating segments of sale of display modules, internet of things business and property development, the remaining liabilities are allocated between payables jointly consumed by reportable and operating segments of sale of handsets and solutions and sale of wireless communication modules and corporate liabilities. Corporate liabilities include certain other payables, deposits received and accruals, tax payable, bank borrowings and deferred tax liabilities.

5. OTHER INCOME/OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Other income		
Refund of Value Added Tax ("VAT") (Note i)	**2,054**	3,504
Government grants (Note ii)	**12,677**	14,181
Interest income earned on bank balances and structured deposit	**2,045**	1,345
Interest income earned on entrusted loan receivables	**5,438**	–
Rental income (Less: outgoings of HK$145,000 (six months ended 30 June 2013: HK$145,000))	**11,372**	9,598
Others	**1,041**	452
	34,627	29,080
Other gains and losses		
Gain (loss) on disposal of property, plant and equipment	**978**	(133)
Net foreign exchange gain	**1,779**	13,855
Changes in fair value of investment properties	**2,675**	–
Allowance for bad and doubtful debts (Note iii)	**–**	(12,250)
Impairment loss recognised in respect of intangible assets (Note 10)	**–**	(5,643)
Impairment loss recognised in respect of property, plant and equipment (Note 10)	**–**	(12,259)
	5,432	(16,430)

Notes:

(i) Shanghai Simcom Limited ("Shanghai Simcom") and Shanghai Simcom Wireless Solutions Limited ("Shanghai Simcom Wireless"), wholly-owned subsidiaries of the Company, 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 and produced software in the PRC.

(ii) The amount includes HK$4,809,000 (six months ended 30 June 2013: HK$11,722,000) unconditional government grants received during the period which was granted to encourage for the Group's research and developments activities in the PRC.

In addition, during the period, the Group received HK$2,500,000 government grants towards the cost of development on wireless communication modules and handset modules in Shanghai and Shenyang (six months ended 30 June 2013: received HK$692,000). The amounts received were deferred and transferred to other income to match actual expenditure used in research and development activities and HK$7,868,000 (six months ended 30 June 2013: HK$2,459,000) was recognised in the profit or loss during the period.

As at 30 June 2014, an amount of HK$48,972,000 (31 December 2013: HK$58,205,000) remains to be amortised and is included in other payables (for current portion) and deferred income (for non-current portion).

(iii) Included in the allowance for doubtful debts were individually impaired trade receivables which in the opinion of the directors were unrecoverable. The Group does not hold any collateral over these balances.

6. TAX CHARGE

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Tax charge comprises:		
PRC Enterprise Income Tax	**(4,004)**	(4,528)
PRC Land Appreciation Tax ("LAT")	**(940)**	(1,073)
Over(under)provision on PRC Enterprise Income Tax in previous years	**1,260**	(4,620)
Deferred tax credit (note 12)	**813**	5,255
	(2,871)	(4,966)

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 rates prevailing in the relevant districts of the PRC taking relevant tax incentives into account. Shanghai Simcom, Shanghai Simcom Wireless and Shanghai Sunrise Simcom Limited are classified as New and High Technology Enterprise and is entitled to adopt a tax rate of 15%. Shanghai Simcom is also classified as Key Production Enterprise and is entitled to adopt an applicable tax rate of 10%. The relevant annual tax rate used for PRC Enterprise Income Tax for the Group's subsidiaries ranged from 10% to 25%.

The provision of LAT is estimated according to the requirements set forth in the relevant tax laws and regulations of the PRC, which is charged at progressive rates ranging from 30% to 60% (six months ended 30 June 2013: 30% to 60%) of the appreciation value, with certain allowable deductions.

7. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Profit (loss) for the period is arrived at after charging:		
Amortisation of intangible assets (included in cost of sales)	**37,481**	65,201
Less: Amount capitalised in development costs classified as intangible assets	**(496)**	(1,206)
	36,985	63,995
Amortisation of land use rights	**1,473**	1,473
Depreciation of property, plant and equipment	**42,984**	46,599
Less: Amount capitalised in development costs classified as intangible assets	**(1,104)**	(1,415)
	41,880	45,184
Staff costs including directors' emoluments	**129,582**	159,568
Share-based payments	**1,939**	2,135
Less: Amount capitalised in development costs classified as intangible assets	**(35,308)**	(33,238)
	96,213	128,465
Operating lease rentals in respect of land and buildings	**3,378**	4,079
Less: Amount capitalised in development costs classified as intangible assets	**(557)**	(282)
	2,821	3,797
Write-down of inventories (included in cost of sales)	**–**	4,998
Cost of inventories recognised as expense (included in cost of sales)	**731,343**	642,715
Cost of properties sold (included in cost of sales)	**41,702**	55,458

8. DIVIDENDS

The directors does not recommend the payment of an interim dividend for the six months ended 30 June 2014 and 2013.

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Earning (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the period attributable to the owners of the Company)	**4,977**	(125,957)
	'000 shares	'000 shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (2013: basic and diluted loss per share)	**2,543,369**	2,543,369
Effect of dilutive potential ordinary shares – share options	**290**	N/A
Weighted average number of ordinary shares for the propose of diluted earnings per share	**2,543,659**	2,543,369

The computation of diluted loss per share for the six months ended 30 June 2013 did not assume the exercise of the Company's share options as it would reduce loss per share.

10. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Investment properties

The fair value of the Group's investment properties at 30 June 2014 and 31 December 2013 have been arrived at on the basis of a valuation carried out on that date by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not related to the Group.

The fair value was determined based on the income capitalisation approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed based on estimates of future cash flows, supported by the terms of existing leases and reasonable and supportable assumptions that represent what knowledgeable willing parties would assume about rental income for future leases in light of current conditions. The rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in Shanghai. There has been no change in the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. At the end of the reporting period, the chief financial officer of the Group worked closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and data inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the management of the Group.

The fair value of investment properties as at 30 June 2014 is HK$314,263,000 (31 December 2013: HK$319,066,000) and a fair value gain of HK$2,675,000 have been recognised directly in profit or loss for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

Property, plant and equipment

During the current interim period, additions to the Group's property, plant and equipment amounted to HK$11,247,000 (six months ended 30 June 2013: HK$17,635,000).

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$7,759,000 (six months ended 30 June 2013: HK$780,000) for cash proceeds of HK$8,737,000 (six months ended 30 June 2013: HK$647,000), resulting a gain on disposal of HK$978,000 (six months ended 30 June 2013: loss of HK$133,000).

During the six months ended 30 June 2013, in view of the operating loss experienced by the Group in the sale of handsets and solutions segment and sale of display modules segment, the directors of the Company conducted an impairment review on the carrying values of the relevant assets. The recoverable amounts of the relevant assets have been determined on the basis of their fair values less costs of disposal. The fair values of the relevant assets at the end of the reporting period were based on the valuation performed by an independent professional valuer, Vigers Appraisal & Consulting Limited. The fair values were determined by reference to the income or market approach for the buildings, and by reference to cost approach and sales comparison approach for equipment, furniture and fixtures, plant and machinery and motor vehicles as appropriate, which takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. As the carrying amounts of the relevant assets as at 30 June 2013 exceeded the recoverable amount, an impairment loss in respective of property, plant and equipment of HK$12,259,000 was recognised to profit or loss, respectively.

During the current interim period, in view of the operating loss experienced by the Group in the sale of display modules segment, the directors of the Company conducted an impairment review on the carrying values of the relevant assets according to the methodologies mentioned above. As the recoverable amounts for relevant assets as at 30 June 2014 exceeded the carrying amounts, no impairment loss was recognised.

Intangible assets

During the current interim period, additions to the Group's intangible assets amounted to HK$62,056,000 (six months ended 30 June 2013: HK$48,288,000) including addition to development costs of HK$59,219,000 (six months ended 30 June 2013: HK$46,103,000) for development projects on the products.

During the six months ended 30 June 2013, due to traditional handsets and solutions suffering continuous operating losses, management conducted an impairment assessment on the development costs in relation to sale of handsets and solutions. The recoverable amount of each project has been determined based on a value in use calculation by reference to the cash flow projections prepared in accordance with the signed sales contracts of respective projects. During the six months ended 30 June 2013, an impairment loss in respect of development costs of HK$5,643,000 was recognised to profit or loss.

11. INTEREST IN AN ASSOCIATE/ASSET CLASSIFIED AS HELD FOR SALE/LIABILITY ASSOCIATED WITH ASSET CLASSIFIED AS HELD FOR SALE

As at 31 December 2013, the Group held 30% equity interest in Xian Helicopter Co., Ltd. ("Xian Helicopter"), a company registered in the PRC, which was accounted for as interest in an associate with carrying amount of HK$28,967,000. The principal activity of the associate is provision of industrial use helicopter services in the PRC.

In March 2014, the Group entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with the existing major shareholder of Xian Helicopter (the "Acquirer"), to dispose of the Group's entire 30% equity interest in Xian Helicopter for a consideration of RMB26,160,000 (or equivalent to approximately HK$32,700,000) which will be settled by three installments. As at 30 June 2014, part of the consideration amounting to RMB10,450,000 (or equivalent to approximately HK$13,063,000) has been received by the Group and the remaining RMB15,710,000 (or equivalent to approximately HK$19,638,000) will be settled no later than September 2014. The transaction will be completed upon the receipt of the full consideration by the Group. As at 30 June 2014, the interest in Xian Helicopter has been classified as asset classified as held for sale and the consideration received of HK$13,063,000 has been classified as liability associated with asset classified as held for sale.

The sale proceeds exceed the carrying amount of the interest in an associate and, accordingly, no impairment loss has been recognised.

12. DEFERRED TAXATION

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

	Development cost capitalised HK$'000	Write-down of inventories and trade receivables HK$'000	Impairment of property, plant and equipment HK$'000	Revaluation of buildings and land use rights transferred to investment properties HK$'000	Total HK$'000
At 31 December 2013 (audited)	(9,694)	30,799	18,545	(44,710)	(5,060)
Exchange differences	247	(722)	(435)	1,057	147
Credit to profit or loss (note 6)	2,242	–	(760)	(669)	813
At 30 June 2014 (unaudited)	(7,205)	30,077	17,350	(44,322)	(4,100)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Deferred tax assets	**47,427**	49,344
Deferred tax liabilities	**(51,527)**	(54,404)
	(4,100)	(5,060)

13. ENTRUSTED LOAN RECEIVABLES

	30 June 2014 HK$'000	31 December 2013 HK$'000
Carrying amount receivable based on maturity set out in the loan agreements		
Within one year	**87,500**	–
More than one year but less than two years	**75,000**	125,900
	162,500	125,900

Notes:

(i) During the current interim period, the Group's wholly-owned subsidiary, Shanghai Simcom Wireless entered into an entrusted loan agreement with Bank of Communications. Pursuant to the agreement, Shanghai Simcom Wireless entrusted an aggregated amount of RMB30,000,000 (or equivalent to HK$37,500,000, the "Entrusted Loan") to a specific corporate borrower carrying at an interest rate of 15% per annum. Bank of Communications acted as the trustee of the Entrusted Loan. Trustee fee of 0.05% per month is charged by Bank of Communications. The Entrusted Loan will mature in October 2014.

(ii) As at 31 December 2013, the Group's wholly-owned subsidiary, Shanghai Sunrise Simcom entered into five entrusted loan agreements with Orient Securities Asset Management Company Limited ("Orient Securities") and China Minsheng Banking Corp., Ltd, Qingdao branch (the "Bank"). Pursuant to these agreements, Shanghai Sunrise Simcom entrusted an aggregated amount of RMB100,000,000 (or equivalent to HK$125,900,000, "Entrusted Assets") to a specific corporate borrower. Orient Securities acted as an asset manager to manage the Entrusted Assets and the Bank acted as the trustee to the Entrusted Assets.

Orient Securities is responsible to manage and invest the Entrusted Assets into investment products under 長安信託•卉誠實業委託貸款單一資金信託合同 (Chang An Trust Hui Cheng Shi Ye Entrusted Loan Single Fund Trust Agreement) with the instructions from Shanghai Sunrise Simcom. Details of the investment products are as follow:

Principal amount	Maturity date	Effective interest rate
RMB20,000,000	April 2015	7% per annum
RMB20,000,000	April 2015	7% per annum
RMB20,000,000	July 2015	7% per annum
RMB20,000,000	July 2015	7% per annum
RMB20,000,000	July 2015	7% per annum

Management fee and trustee fee of approximately 0.2% per annum and 0.06% per annum are charged by Orient Securities and the Bank respectively. During the entrusted period, Shanghai Sunrise Simcom may withdraw part of the amount of the Entrusted Assets provided that the remaining balance of the Entrusted Assets in the account shall not be less than RMB1 million. Although the Group can withdraw the Entrusted Assets in accordance with the entrusted loan agreements, the management expected that the Group will not withdraw the Entrusted Assets until its maturity. As a result, RMB60,000,000 is classified as non-current assets as at 30 June 2014 (31 December 2013: RMB100,000,000).

As at 30 June 2014 and 31 December 2013, no entrusted loan receivables have been past due or impaired.

14. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods relating to handsets and solutions, display modules and wireless communication modules is 0-90 days. A longer period is granted to a few customers with whom the Group has a good business relationship and which are in sound financial condition. There is no credit given to sales of properties.

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

	30 June 2014 HK$'000	31 December 2013 HK$'000
0-30 days	**268,162**	198,543
31-60 days	**101,763**	13,377
61-90 days	**3,668**	1,392
91-180 days	**11,246**	1,582
Over 180 days	**32,437**	33,589
	417,276	248,483
Less: Accumulated allowances	**(31,704)**	(32,465)
Trade receivables	**385,572**	216,018
0-30 days	**5,300**	12,338
Notes receivables (Note)	**5,300**	12,338
	390,872	228,356

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

15. TRADE AND NOTES PAYABLES

Trade and notes payables (other than for the construction of properties held for sale) principally comprise amounts outstanding for trade purchases. The normal credit period taken for trade purchases is 30-90 days.

Trade payables and accrued expenditure on construction of properties held for sale comprise construction costs and other project-related expenses which are payable based on project progress measured by the Group.

An aged analysis of the Group's trade payables at the end of the reporting period presented based on the invoice date is as follows:

	30 June 2014 HK$'000	31 December 2013 HK$'000
0-30 days	**351,948**	298,098
31-60 days	**21,553**	6,660
61-90 days	**873**	422
Over 90 days	**17,297**	16,757
	391,671	321,937

16. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

Amount is unsecured, interest-free and repayable on demand.

17. BANK BORROWINGS

During the period, the Group obtained new short-term bank borrowings with total amount of HK$322,879,000 (six months ended 30 June 2013: HK$230,927,000). The bank borrowings carry variable interest at London Interbank Offer Rate plus a spread ranged from 2.5% to 3.4% and are repayable within one year. Pursuant to the loan agreements, the bank borrowings were secured by investment properties, property, plant and equipment, land use right and bank deposits.

18. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2014 and 30 June 2014	3,000,000	300,000
Issued:		
At 1 January 2014 and 30 June 2014	2,557,499	255,750

19. OPERATING LEASE ARRANGEMENT

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Within one year	**2,203**	1,937
In the second to fifth year inclusive	**565**	964
	2,768	2,901

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2014 HK$'000	31 December 2013 HK$'000
Within one year	**22,192**	25,216
In the second to fifth year inclusive	**36,842**	37,036
After five years	**8,434**	10,483
	67,467	72,735

20. COMMITMENTS

	30 June 2014 HK$'000	31 December 2013 HK$'000
Expenditure in respect of properties under development for sale contracted for but not provided in the consolidated financial statements	**196,906**	90,197
Expenditure in respect of properties under development for sale authorised but not contracted for	**–**	107,318

21. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2014, the Group obtained a land use right certificate for a piece of land in the PRC, accordingly, deposits paid in prior year for acquisition of land use rights of approximately RMB12,550,000 (equivalent to approximately HK$16,065,000) was transferred to land use rights.

The purchase consideration of property, plant and equipment amounting to HK$4,237,000 (31 December 2013: HK$5,553,000) remained unsettled and was included in other payables, deposits received and accruals as at 30 June 2014.

During the six months ended 30 June 2013, the Company allotted and issued 852,499,500 shares by way of Rights Issue to its shareholders. Proceeds from the Rights Issue was received during the year ended 31 December 2012.

22. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Short term benefits	**2,498**	4,747
Post-employment benefits	**120**	118
Share based payments	**154**	885
	2,772	5,750

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES

At 30 June 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (CAP 571, Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept 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 ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(a) Long position in the shares of the Company

Name of director	Name of corporation	Nature of interest	Ordinary shares	Underlying shares	Total	Approximate percentage of interest in the corporation (note 3)
Mr Wong Cho Tung	Company	Corporate interest (note 1)	1,209,084,000	-	1,209,084,000	47.28%
	Company	Personal interest	3,098,000	-	3,098,000	0.12%
	Subtotal				1,212,182,000	47.40%
Ms Yeung Man Ying	Company	Corporate interest (note 2)	734,857,000	-	734,857,000	28.74%
	Company	Personal interest	3,418,000	-	3,418,000	0.13%
	Subtotal				738,275,000	28.87%
Mr Zhang Jianping	Company	Personal interest	7,296,000	11,115,000	18,411,000	0.72%
Ms Tang Rongrong	Company	Personal interest	-	4,446,000	4,446,000	0.17%
Mr Chan Tat Wing Richard	Company	Personal interest	-	5,967,000	5,967,000	0.23%
Mr Liu Hong	Company	Personal interest	-	1,446,120	1,446,120	0.06%

Notes:

1. Mr Wong Cho Tung ("Mr Wong") controls more than one-third of the voting power of Info Dynasty Group Limited ("Info Dynasty"). Mr Wong is therefore deemed to be interested in all the 734,857,000 shares held by Info Dynasty in the Company by virtue of Part XV of the SFO. Both Intellipower Investments Limited ("Intellipower") and Simcom Limited ("Simcom (BVI)") are wholly owned by Mr Wong and he is therefore deemed to be interested in all the 454,227,000 shares and 20,000,000 shares held by Intellipower and Simcom (BVI) respectively in the Company by virtue of Part XV of the SFO.

2. Ms Yeung Man Ying ("Mrs Wong"), the spouse of Mr Wong, controls more than one-third of the voting power of Info Dynasty. Mrs Wong is therefore deemed to be interested in all the 734,857,000 shares held by Info Dynasty in the Company by virtue of Part XV of the SFO.

3. Calculation of percentage of interest in the Company is based on the issued share capital of 2,557,498,500 shares of the Company as at 30 June 2014.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, whether beneficial or non-beneficial, in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS OR OTHERS' INTERESTS IN THE SECURITIES OF THE COMPANY

Based on the necessary enquiry by the Company, at 30 June 2014, the interests and short positions of other persons (other than Directors or chief executives of the Company) in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of ordinary shares of the Company	Approximate percentage of interest in the Company (note 1)
Info Dynasty (note 2)	Personal interest	734,857,000	28.73%
Intellipower (note 3)	Personal interest	454,227,000	17.76%

Notes:

1. Calculation of percentage of interest in the Company is based on the issued share capital of 2,557,498,500 shares of the Company as at 30 June 2014.

2. The relationship between Info Dynasty and Mr Wong and the relationship between Info Dynasty and Mrs Wong are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares" above.

3. The relationship between Intellipower and Mr Wong is disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares" above.

Save as disclosed above, as at 30 June 2014, there is no other substantial shareholders or persons who had any interests or short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept by the Company under the section 336 of the SFO.

SHARE OPTIONS

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") and under a share option scheme ("Post-IPO Share Option Scheme") adopted on 30 May 2005.

The details of the options under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme granted to certain Directors and employees of the Group and movements in such holdings were illustrated below:

Category of participants	Name of scheme	Date of grant	Outstanding at 1 January 2014	Granted during the period	Lapsed during the period	Outstanding at 30 June 2014
Directors						
Mr Zhang Jianping	Pre-IPO	30.5.2005	1,755,000	-	-	1,755,000
	Post-IPO	28.3.2008	585,000	-	-	585,000
	Post-IPO	3.9.2009	8,775,000	-	-	8,775,000
Ms Tang Rongrong	Post-IPO	28.3.2008	936,000	-	-	936,000
	Post-IPO	3.9.2009	3,510,000	-	-	3,510,000
Mr Chan Tat Wing Richard	Pre-IPO	30.5.2005	585,000	-	-	585,000
	Post-IPO	28.3.2008	1,872,000	-	-	1,872,000
	Post-IPO	3.9.2009	3,510,000	-	-	3,510,000
Mr Liu Hong	Post-IPO	13.11.2007	117,000	-	-	117,000
	Post-IPO	28.3.2008	393,120	-	-	393,120
	Post-IPO	3.9.2009	936,000	-	-	936,000
Sub-total			22,974,120	-	-	22,974,120
Employees of the Group	Pre-IPO	30.5.2005	826,020	-	-	826,020
	Post-IPO	12.5.2006	2,878,200	-	(93,600)	2,784,600
	Post-IPO	13.11.2007	4,344,795	-	(198,900)	4,145,895
	Post-IPO	28.3.2008	13,735,800	-	(673,335)	13,062,465
	Post-IPO	3.9.2009	39,430,755	-	(2,686,905)	36,743,850
	Post-IPO	19.7.2013	17,600,000	-	-	17,600,000
Consultants	Post-IPO	19.7.2013	45,400,000	-	-	45,400,000
Sub-total			124,215,570	-	(3,652,740)	120,562,830
Total			147,189,690	-	(3,652,740)	143,536,950

Notes:

1. In relation to each grantee of the options granted on 30 May 2005 under the Pre-IPO Share Option Scheme, 25% of the options vested 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. The adjusted exercise price per share is HK$0.87 and the exercise period is 1 April 2006 to 29 May 2015.

2. In relation to each grantee of the options granted on 12 May 2006 under the Post-IPO Share Option Scheme, 25% of the options vested in each of the four calendar years from 1 January 2007. The adjusted exercise price per share is HK$3.14 and the exercise period is 1 January 2007 to 11 May 2016.

3. In relation to each grantee of the options granted on 13 November 2007 under the Post-IPO Share Option Scheme, 25% of the options vested in each of the four calendar years from 1 April 2008. The adjusted exercise price per share is HK$1.40 and the exercise period is 1 April 2008 to 12 November 2017.

4. In relation to each grantee of the options granted on 28 March 2008 under the Post-IPO Share Option Scheme, 25% of the options vested in each of the four calendar years from 15 April 2009. The adjusted exercise price per share is HK$0.69 and the exercise period is 15 April 2009 to 27 March 2018.

5. In relation to each grantee of the options granted on 3 September 2009 under the Post-IPO Share Option Scheme, 25% of the options vested in each of the four calendar years from 15 April 2010. The adjusted exercise price per share is HK$0.68 and the exercise period is 15 April 2010 to 2 September 2019.

6. There was no share options exercised or granted during the reporting period.

7. Upon completion of the rights issue of the Company on 4 January 2013, adjustments were made to the exercise price and number of the share options to subscribe for shares granted pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

Other than as disclosed above, at no time during 1H-2014 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 exercised any such right during 1H-2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During 1H-2014, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Listing Rules for 1H-2014.

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

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

At the annual general meeting of the Company held on 30 May 2014 ("2014 AGM"), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to an unexpected business engagement. Mr Chan Tat Wing, Richard, an executive Director and the chief finance officer of the Group, chaired the 2014 AGM on behalf of the chairman of the Board pursuant to the bye-laws of the Company and was available to answer questions. Mr Liu Hing Hung, an independent non-executive Director and the chairman of the Remuneration Committee and the Audit Committee, was also available at the 2014 AGM to answer questions from Shareholders.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that they have fully complied with the required standard as set out in the Model Code for 1H-2014.

AUDIT COMMITTEE

The audit committee of the Board ("Audit Committee") has reviewed with the management the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014. In addition, the condensed consolidated financial statements of the Group for the six months ended 30 June 2014 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms YEUNG Man Ying *(Chairman)*
Mr WONG Cho Tung *(President)*
Mr ZHANG Jianping
Ms TANG Rongrong
Mr CHAN Tat Wing, Richard
Mr LIU Hong

Independent non-executive Directors
Mr LIU Hing Hung
Mr XIE Linzhen
Mr DONG Yunting

AUDIT COMMITTEE

Mr LIU Hing Hung *(Chairman)*
Mr XIE Linzhen
Mr DONG Yunting

REMUNERATION COMMITTEE

Mr LUI Hing Hung *(Chairman)*
Mr XIE Linzhen
Mr DONG Yunting
Mr Wong Cho Tung

COMPANY SECRETARY

Ms WONG Tik

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISER AS TO HONG KONG LAW

LEUNG & LAU

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Bank of Communications
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

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