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SIM Technology

SIM Technology Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 2000)

Interim Report

2017



CHAIRMAN'S STATEMENT

On behalf of the board ("Board") of the directors ("Directors") of SIM Technology Group Limited ("Company"), I am presenting the interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2017.

BUSINESS REVIEW

The Group has continued to implement its strategy of business model's transformation, "shifting from the manufacturing industry to the information technology services industry, and from a product-oriented manufacturer to a service-oriented service provider". Looking back over the past few years, the Group's business positioning and development strategies after its business transformation have shown stable results. In the first half of 2017, the Group faced the challenging global economic environment, fluctuating exchange rates as well as intensifying market competition. Affected by these factors, the Group's revenue and gross profit from some of its core businesses have declined. Overall, the Group's profit attributable to the owners of the Company for the first half of 2017 increased by 15.1% when compared to the same period last year, despite the difficult business environment.

In handsets, solutions and intelligent terminals business, the Group has shifted from serving mid-to-low-end consumer to serving high-end differentiated consumer handset niches with a focus on industrial application and Internet of Things ("IOT") terminal markets in these few years. In the first half of 2017, the Group concentrated on the shipment of the differentiated and IOT terminal handset models and continued to scale back on its efforts in the mid-to-low-end consumer handset segment which has high risk, yet generates a low gross profit margin. The overall result was a notable drop in shipments and sales amount when compared to the same period last year. Moreover, the shipment of several product models, which were being massively produced in the second half of last year, including differentiated consumer and industrial application terminal handsets, continued in the first half of this year, but the gross profit margin of these products dropped significantly. Furthermore, many components from the upstream supply chain was in serious shortage and those price escalated starting from the second half of last year, leading to the rising cost of our products shipped and the decline of gross profit margin in the first half of this year. In addition, due to the rapid expansion of bike sharing market, demand for wireless communication module business increased. In order to tie in with the business operation, during 1H-2017, the Group re-allocated some resources from handset, solutions and intelligent terminals business to wireless communication modules business. As a result, segment expenses of wireless communication modules increased and segment expenses of handset, solutions and intelligent terminals business decreased during 1H-2017.

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As the demand for wireless communication modules in both domestic and overseas markets increased, overall shipments, external sales amount and gross profit surged significantly by 205.5%, 97.9% and 32.0% respectively when compared to the same period of last year, within which 2G product applications had the greatest growth in the domestic bike sharing market. The Group successfully captured a large portion of the market share and demonstrated its obvious advantages in technology and marketing capabilities in the domestic bike sharing market. For the operating results during 1H-2017, shipment and sales amount of 2G products increased by multiples. The modules used for bike sharing achieved a large shipment volume but their average selling price ("ASP") and gross profit margin were very low. Consequently, the sales amount and gross profit of the entire module business segment achieved notable period-to-period growth whereas the gross profit margin recorded a significant period-to-period decline.

As for the automatic vending machines IOT business, the Group adjusted the development from the originally asset-heavy operation mode of directly managing operations and recruiting businesses for the financing of leasing investments to an one-stop-service asset-light Online-to-offline ("O2O") service platform since 2016. Apart from utilising its back-end systems to provide operators with data services, the Group has developed a comprehensive solution to provide one-stop transformation and upgrading services that target the existing outdated vending machines of the operators. As a result, the existing outdated vending machines originally with a cash payment function only, have been enhanced with the addition of various online payment functions and consolidated marketing capabilities, including points redemption, vouchers, effective marketing of fast-moving consumer goods, and advertisements.

During 1H-2017, the Group continued to actively develop its intelligent manufacturing business, increased investment and continued its efforts to advance three core technologies and developed more intelligent equipment. Concurrently, with the Chinese government's implementation of the financial de-leveraging policy, most of the manufacturers encountered difficulties in financing. They became prudent about significant investment in equipment and a large number of new products had not been launched for sale. Thus, the intelligent manufacturing business recorded a short-term downward trend. Besides, several companies engaged in providing automated solutions that were acquired by the Group two years ago turned from making a profit to loss. This sluggish performance of the intelligent automation business was one of the reasons leading to the drop of actual sales performance and gross profit in the intelligent manufacturing business.

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Handsets, solutions and intelligent terminals business

After several years of implementing strategic transformation, the new business direction of the Group's handsets, solutions and intelligent terminals business has gained traction. During 1H-2017, more than half of the sales volume, shipment volume and profit were contributed by overseas markets and customers. At the same time, differentiated handsets and industrial terminals contributed most of the sales revenue.

In the first half of 2016, the Group mainly sold a higher volume of consumer handsets to an internet brand. In the corresponding period of 2017, the Group shipped mainly differentiated and IOT terminal handsets models as well as continued to reduce its resources allocated to the mid-to-low-end consumer handset business with high risks yet low gross profit margin, thereby resulting in declining shipments and sales amount when compared to the same period last year. Moreover, mass production and shipment of several product models including consumer and industrial terminal handsets launched in the second half of last year continued the shipment in 1H-2017 but the shipments and gross profit margin dropped significantly. Furthermore, many components of the upstream supply chain was in serious shortage and its price escalated starting from the second half of last year, leading to the rising cost of our product shipped and the subsequent decline of gross profit margin in 1H-2017. Besides, despite the expansion of the new product and business lines, the business volume could not overcome the decrease in the existing general consumer handsets business, leading to a substantial decline in sales amount, shipment volume and gross profit of the handsets business in the first half of this year when compared to the same period last year.

With the maturity and confirmation of the 5G and NB-IOT standards, the IOT market is growing. Enormous opportunities have gradually emerged in many market segments such as mobile Point of Sale ("POS"), intelligent logistics, scan terminals, digital walkie talkies, Internet of Vehicles ("IOV") terminals, etc. The Group has initially ventured into these niche markets few years ago and has launched terminals to these niche markets, so it possesses first-mover advantages.

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In view of the evolution of the market and our competitive advantages, the Group's management has confirmed that it will further push forward our business on targeting terminal segments. We will continue to expand in the differentiated market and the IOT industrial terminal market as well as to increase our sales and investment in research and development ("R&D") in these market segments. Meanwhile, the Group will also capture the opportunities available in high-end consumer handset ODM, so as to achieve economies of scale, maintain competitiveness of our supply chain and better management in operating risks. The Group still regards overseas ODM opportunities in niche markets as the most important priority, and will further expand its sales force in overseas markets such as North America, Europe and Japan. Within the domestic market, apart from providing terminals to customers, the Group has further expanded its product portfolio and services in a bid to provide better service to our customers and markets, thereby enhancing our influence in specific market segments.

Wireless communication modules business

As the global IOT market thrives, the demand for the Group's wireless communication modules in domestic and overseas markets is increasing. As a result, overall shipments and external sales revenue soared by more than 205.5% and 97.9% respectively when compared with the corresponding period of last year, with sales volume of 2G and 4G products boasting the highest growth. As for sales of 2G modules, benefiting from the rapid development of the bike sharing market in China in 1H-2017, the Group's SIMCOM brand captured the largest portion of the entire bike sharing market through its main support to our three largest customers. Similarly, in the international market, thanks to SIMCOM's successful portfolio in 4G high-end products and its many certifications, the Group has secured many overseas projects. Besides, in view of rapid growth in the overall demand of the domestic 4G market, most of SIMCOM's 4G new products launched in the past two years have already started mass production, given that SIMCOM has proactively developed the product lines relatively early. The selling price of 4G module products on average is eight to ten times higher than that of 2G module products. At present, the largest demand for 4G modules is mainly from the intelligent metre reading, mobile payment, IOV, as well as security and surveillance segments.

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Telecommunication operators have made very significant support and investment in the IOT area. In particular, China has actively entered the IOT era, as both network infrastructure and accumulated technology of terminal products have reached a new stage, which has laid a foundation for the development of IOT applications. Compared to China, Europe was mainly affected by the slow economic development. Elsewhere, several major operators in high-end application segments in the US and Japan have proactively promoted 4G services. Several modules developed under the Group's SIMCOM brand have obtained certifications by several major operators in the US and Japan. Meanwhile in India and South East Asia markets, the expansion of high-end 4G markets has not been fast enough, but the demand for the M2M application in the traditional 2G/3G network currently still enjoys higher growth. To take advantage of these opportunities, the Group has entered into strategic partnership with operators across several countries around the world.

During 1H-2017, the substantial increase in the shipments of modules compared to the same period in last year was attributable to the 2G product applications in the bike sharing market in China. However, due to the intense price competition in the market and small operating margins, the entire modules business has recorded a greater drop in gross profit margin.

IOT automatic vending machine business

The Group has adjusted the development roadmap of the cloud-based automatic vending machine business to transform it into an integrated service platform for automatic vending machine operators and beverage manufacturers. Other than configuring its back-end systems to deliver data services to operators, the Group also provides them with upgrading services for their installed outdated machines. In particular, the Group has added various online payment functions through WeChat Pay and Alipay to these machines, which previously only accepted cash, with precision marketing and advertising functionality to promote points redemption, vouchers and fast moving consumer goods. Upgrade of old vending machines will bring more customer resources to the Group's back-end systems, and the beverages wholesale distribution services and financial leasing services provided by the platform will enable the Group to form an integrated service platform to support vending machine operators and beverages manufacturers. However, such changes require continued investment in systems and it remains at the investment stage at present.

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During 1H-2017, Shanghai Yunhao Trading Limited, an indirect non-wholly owned subsidiary of the Company, a company selling beverages, added nine sub-depots across China, resulting in an increase in turnover from the wholesale and sales of beverages in this business segment. The adding of a sub-depot business in different regions has also led to a rise in labour and storage costs. In addition, the new sub-depots are located in relatively undeveloped areas where the ability and efficiency of channel management are not up to standard. The higher POS fee and new sub-depot business fee has also caused the overall gross profit margin in this business segment to drop. To address this situation, the Group has coordinated its sub-depot business across the country and decided to reduce the number of unprofitable sub-depots in the second half of this year in order to minimise loss.

Meanwhile, the Group's big data service platform has continued to focus on a series of IOT application integrated solutions such as the intelligent community and intelligent elderly care services, health monitoring, vehicle anti-theft management, management systems for property security and students' safety, automatic vending machine O2O services and the industrial internet during 1H-2017. The platform also provides comprehensive cloud computing and big data services to the Group through designing servers with uniform standards.

Intelligent manufacturing business

The first business unit is engaged in producing automated equipment based on integrated robotic applications, and would be used to replace operations in the production line that requires large amount of operation procedures. In the first half of this year, the Group continued to develop its intelligent manufacturing business and successfully launched new automated equipment, which attracted more customers. As mentioned in the previous annual report of the Company, the competition in the robotics integration industry has become more intense and the development in this industry is faster than expected. Some competitors have even embarked on cut-throat competition offering products at much lower price forcing the Group to forfeit some market opportunities, so its sales have not increased as much as expected.

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The second business unit is committed to develop the optical system products, which are focusing on machine vision and artificial intelligence technology, to replace a large number of visual inspection workers on the production line. The Group can master the core technology of testing cell phone covers, its key development direction, and can determine its value during the long period of customer site testing and evaluation. However, due to various reasons, the Group has been unable to secure major orders as scheduled during 1H-2017, but only gaining a few small orders. While it continues to invest in R&D, this business unit is still unprofitable during 1H-2017.

The third business unit aims to tap the industrial internet intellectual system through the development of the backstage software to replace or assist simple and straightforward computer operations for a white-collar worker in manufacturing or supply-chain management, such as a planner and a warehouse manager. The investment in R&D has been huge but actual income has not been generated during 1H-2017 as the business unit is still in the early stage of development and improvement.

During 1H-2017, a number of the Group's key projects had entered into the final R&D and marketing stage. The huge investment in R&D has yet to realise revenue and this has caused the Group to record unsatisfactory results this year. From the macroeconomic perspective, the greater downward pressure faced by the Chinese economy, the more intensive promotion of financial deleveraging by the Chinese government and the tighter capital supply in the market have it more difficult for a majority of manufacturing enterprises to obtain financing. These enterprises have adopted a prudent approach in making substantial investment in equipment and they have not yet started implementing large-scale investment plans. Facing the intense competition in the traditional 3C electronics industry, the Group has insisted on the operating principle of emphasizing quality rather than price in order to deliver high quality and the right quantity at the right time for every project. The sales performance of the Group's intelligent manufacturing business showed a downward trend in the short term as the Group took the initiative to avoid cut-throat price competition while remaining steadfastly determined to give up unprofitable projects. Besides, several companies engaged in providing automated solutions that were acquired by the Group two years ago turned from making a profit to loss has also seriously affected the overall results of this business segment.

Property development

As at 30 June 2017, "The Riverside Country" (晨興•翰林水郡), in Shenyang City, the PRC, has a total of 1,842 residential units in all its four phases, of which 1,461 units had been sold.

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As at 30 June 2017, "Seven River in Sweet" (七里香溪), in Taizhou City, the PRC, has a total of 757 residential units and 22 commercial units completed in all its two phases, of which 716 units and 22 units had been sold respectively.

The sales of properties recognised for 1H-2017 was amounted to HK\$67.4 million (2016: HK\$112.5 million) with a gross profit margin of 12.5% (2016: 12.9%).

Prospects

The management is aware of both the challenges and opportunities that the Group is facing in 2017. Looking ahead, the Group will continue to implement the set strategies and insist on "shifting from the manufacturing industry to the information technology services industry, and from a product-oriented manufacturer to a service-oriented service provider".

The management is cautiously optimistic about the results of its handsets, solutions and intelligent terminals business in the second half of the year. This business segment is set to derive most of its profits from differentiated handsets and industrial application terminal products. Products that are expected to generate greater contributions in the second half of this year include light luxury consumer handsets, intelligent logistics scan terminals, industry specific handsets, live handsets, and 4G consumer handsets targeting specific customer groups tailor-made for Japanese operators. The Group will also strengthen of its efforts to expand overseas markets. Japan, the US, Europe, India and Southeast Asia are the Group's major overseas markets, while it is expanding its reach to the Middle East and South America. As for the domestic industrial market, apart from providing terminals, the Group will also further broaden its product and service offerings so as to better serve its customers and markets as well as enhance its presence in specific markets. The Group expects the overall results of its mobile terminal business to be better than that of the last corresponding period.

As for the development strategies of the wireless communication modules business, the Group will strive to preserve its top global position in terms of market share. For the 4G products, the Group will focus on achieving advances in some of the new high-end application areas, develop more new technologies and launch new high-end products to meet the demand in the fast-expanding global IOT market.

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Regarding the IOT automatic vending machine business, the Group is determined to offer a variety of quality services to automated vending machine operators and beverage manufacturers capitalising on its integrated service platform. Special focus will be placed on quickly increasing the number of operators and vending machines utilising the platform to facilitate the upgrade of a large installed base of old and outdated vending machines in the market at present. For the beverage wholesale business, the Group will continue to expand the sales business based on its presence in the surrounding areas of Shanghai. It will also coordinate the sub-depot business in different regions, continue to strengthen the development of its value-added intelligent automatic vending machine business and maximise its services coverage. Moreover, the Group will continue to expand the cloud computing and big data service platform to support its proprietary intelligent elderly care service system, health monitoring system and vehicle anti-theft management system, as well as promoting these systems in both domestic and overseas markets.

Intelligent manufacturing business is the latest business pursuit of the Group. Thanks to the Group's dedicated efforts during the past few years, the intelligent manufacturing team has grown into a professional unit integrating R&D, manufacturing, sales and after-sales functions. It has also entered into strategic cooperative partnerships with many key customers engaging in the production of quality handsets, thereby forming a solid foundation for the robust growth of the business in the future. To date, the entire intelligent manufacturing team has delivered an outstanding performance and so as the Group in terms of technical capability, product industry roadmap and expansion of our customer base. The manufacturing business in China is beginning a wave of intelligent robotic transformation and there is huge growth potential in demand at the advent of the intelligent manufacturing and the artificial intelligent era. Nonetheless, the development of the new intelligent manufacturing business takes time and the price competition in China is set to become more severe. Other new intelligent manufacturing companies made their presence felt in the market one by one which has also led to fierce competition in the acquisition of talent. Thus, the Group's intelligent manufacturing team is forced to develop more effective solutions to help its team members address the intense market competition in the future by nurturing the entrepreneurial "can-do" spirit. With high calibre employees as well as a talented and resourceful team to further advance the development of core technologies and expansion of both domestic and overseas markets, the Group is confident that its intelligent manufacturing business will realise satisfactory growth in the coming few years.

CHAIRMAN'S STATEMENT

Appreciation

The Board would like to thank our shareholders, customers, suppliers, bankers and professional advisers for their support to 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, 24 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For 1H-2017, the revenue of the Group was HK\$1,429.0 million (2016: HK\$1,325.7 million), in which the revenue from sale of handsets, solutions and intelligent terminals, wireless communication modules, IOT business and intelligent manufacturing business (together, "core business") increased by 12.2% to HK\$1,361.6 million (2016: HK\$1,213.2 million) as compared with that of the six months ended 30 June 2016 ("1H-2016"). The revenue from the sale of residential units in Shenyang and Taizhou, PRC was HK\$67.4 million in 1H-2017 (2016: HK\$112.5 million).

The gross profit for 1H-2017 for core business of the Group decreased period-to-period by 16.5% to HK\$156.0 million (2016: HK\$186.8 million). The gross profit margin for core business reduced to 11.5% (2016: 15.4%). The overall gross profit margin of the Group for 1H-2017 was 11.5% (2016: 15.2%).

As a result of the increase in revenue in 1H-2017, the Group achieved a profit attributable to owners of the Company of HK\$35.7 million (2016: HK\$31.0 million). The basic earnings per share for 1H-2017 was HK1.4 cents (2016: HK1.2 cents).

Segment results of core business

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Revenue HK\$'M	Gross profit HK\$'M	Gross profit margin %	Revenue HK\$'M	Gross profit HK\$'M	Gross profit margin %
Handsets, solutions and intelligent terminals	516	57	11.1	687	87	12.7
Wireless communication modules	655	66	10.0	331	50	15.0
IOT business	146	18	12.3	122	21	17.4
Intelligent manufacturing business	45	15	34.9	73	29	39.0
Total	1,362	156	11.5	1,213	187	15.4

MANAGEMENT DISCUSSION AND ANALYSIS

Handsets, solutions and intelligent terminals

The revenue of handsets, solutions and intelligent terminals for 1H-2017 decreased 24.9% to HK\$516.2 million (2016: HK\$687.0 million) as compared to that of 1H-2016. Starting from second half of last year, a lot of upstream supply chain components are out of stock and their prices are raised, resulting in decrease in gross profit and gross profit margin during 1H-2017. The gross profit margin for this segment decreased to 11.1% in 1H-2017 (2016: 12.7%). The revenue of ODM business contributed to approximately 75% of the revenue of this segment in 1H-2017 (2016: 79%).

Wireless communication modules

Due to the increasing demand for the Group's wireless communication modules from domestic bike sharing industry, overall shipment in 1H-2017 have risen sharply by 205.5% as compared to the same period last year. Hence, the revenue of this segment increased period-to-period by 97.9%. However, due to the declining ASP of 2G and other low-end modules, the gross profit margin decreased to 10.0% (2016: 15.0%).

Internet of things business

During 1H-2017, the Group added 9 sub-depots throughout the country, as a result, the revenue of IOT business recorded HK\$145.9 million (2016: HK\$121.6 million). However, the newly-added sub-depots are in immature areas, channel control and efficiency not yet up to standard which caused to the increase in business operation costs and the decrease of gross profit margin to 12.3% (2016: 17.4%).

Intelligent manufacturing business

During 1H-2017, due to the fierce market competition, in order to avoid the vicious competition phenomenon, the Group gave up those projects that did not make any profit which affected the sales and gross profit margin. The revenue of this segment decreased to HK\$44.4 million (2016: HK\$73.5 million) and the gross profit margin decreased to 34.9% in 1H-2017 (2016: 39.0%).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2017, the Group had bank balances and cash of HK\$265.2 million (31 December 2016: HK\$249.1 million), of which 82.2% was held in Renminbi, 17.6% was held in US dollars and the remaining balance was held in Hong Kong dollars. As at 30 June 2017, the Group also had pledged bank deposits of HK\$40.5 million (31 December 2016: HK\$76.6 million) in Renminbi for the purpose of the Group's Renminbi borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including property, plant and equipment, investment properties, land use rights and notes receivables) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$199.5 million as at 30 June 2017 (31 December 2016: HK\$300.0 million), all of which HK\$179.9 million was denominated in Renminbi and HK\$19.6 million was denominated in US dollars. All of the bank borrowings were carried at floating interest rates and repayable within one year.

Operating Efficiency

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

	30 June 2017 Days	31 December 2016 Days
Inventory turnover period	119	119
Trade and notes receivables turnover period	39	40
Trade and notes payables turnover period	60	88

In the second quarter of 2017, the purchase volume of the Group was large as to fulfill the sales orders of third quarter of 2017. The inventory turnover period of 1H-2017 thus maintained same level as compared to that of year 2016.

During 1H-2017, as the trade receivables for core business have same credit period to the year 2016, the overall trade and notes receivables turnover period maintained in similar level as compared to that of year 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The trade and notes payables turnover period decreased for 1H-2017 as compared to that of year 2016 due to the average balance of trade and notes payables decreased for 1H-2017.

As at 30 June 2017, the current ratio, calculated as current assets over current liabilities, was 1.8 times (31 December 2016: 1.9 times).

The Group reckons that inventory turnover period, trade and notes receivables turnover period, and trade and notes payables turnover period help the Group to understand its ability to convert inventory into cash and sales cash conversion cycle. Through reviewing the turnover periods, the Group can improve its operational efficiency. The current ratio can help the Group to understand its ability to pay short-term and long-term obligations.

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income. As at 30 June 2017, the Group has entrusted a total amount of HK\$69.4 million under certain asset management agreements for an investment period of one year. During 1H-2017, the Group did not have any other security or capital investments or derivative investments.

Certain sales and purchases of inventories of the Group are denominated in US dollars. Furthermore, certain trade receivables, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. During 2016, the Group entered into a foreign exchange forward contract of US\$20.0 million to reduce the foreign exchange exposures in US dollars. The net fair value of foreign exchange forward contract entered into by the Group for managing the currency risk of US dollars as at 30 June 2017 was a liability of HK\$7.6 million (31 December 2016: Nil). Save as disclosed, the Group did not use any financial instrument for hedging purpose.

Capital structure

As at 30 June 2017, the Company had 2,557,896,300 ordinary shares of HK\$0.10 each in issue.

No shares of the Company has been issued or repurchased during 1H-2017.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2017 and 1H-2016:

	1H-2017 HK\$'M	1H-2016 HK\$'M
Net cash from operating activities	151.8	170.3
Capital expenditure	(10.8)	(41.8)
Development costs	(110.2)	(97.3)
Net decrease in bank borrowings	(106.8)	(127.0)
Net cash inflow from disposal of an associate	10.0	-
Net decrease in entrusted loan receivables	45.6	3.5
Interest paid	(3.0)	(4.6)
Others	3.3	(8.1)
Net decrease in cash and cash equivalents (including pledged bank deposits)	(20.1)	(105.0)

GEARING RATIO

As at 30 June 2017, the total assets of the Group was HK\$3,615.2 million (31 December 2016: HK\$3,479.8 million) and the bank borrowings was HK\$199.5 million (31 December 2016: HK\$300.0 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 5.5% (31 December 2016: 8.6%).

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

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 30 June 2017, the Group had approximately 2,480 (31 December 2016: 2,390) 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 has a comprehensive training system in place that establishes a network-based career path for employees, including position and ability management, skills enhancement programme, various training opportunities, online learning programme for staff, internal promotion system, key employees development programme, succession plans for key positions and leadership development programme. The Group also offers discretionary bonuses and may grant share options under the share option scheme of the Company to its employees by reference to individual performance and the performance of the Group.

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 share option scheme to motivate the eligible persons referred to in the scheme, which include executive Directors and employees of the Group, to optimise their future contributions to the Group and to reward them for their efforts.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENT

As at 30 June 2017, 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

On 20 January 2017, SIM Technology Group (BVI) Limited, a wholly-owned subsidiary of the Company and u-blox AG, a wholly-owned subsidiary of u-blox Holding AG (a company listed on the SIX Swiss Exchange), entered into the technology assignment ("Technology Assignment Contract") and the asset purchase agreement ("Asset Purchase Agreement"), pursuant to which the Group has agreed to sell the Group's 2G, 3G, 4G wireless communication module and GNSS module business related technology and assets at the aggregate consideration of US\$52.5 million ("Disposal").

On 21 May 2017, the Group and u-blox AG have mutually agreed not to proceed with the Disposal. Both parties have therefore decided to amicably terminate the Technology Assignment Contract and Asset Purchase Agreement and all ancillary agreements.

Details of the Disposal are disclosed in the announcements of the Company dated 22 January 2017 and 22 May 2017 and the circular of the Company dated 28 February 2017.

Save as disclosed above, during 1H-2017, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

On 7 July 2017, the Group entered into a letter of intent with 上海移为通信技术股份有限公司 (Quealink Wireless Solutions Co., Ltd.) and Richjoy Talent Limited for a possible disposal of two wholly-owned subsidiaries of the Company which own or will own all the technology, patents and software copyrights relevant to 2G, 3G and 4G wireless communication module, GNSS module and the wireless communication modules business of the Group ("Possible Disposal"). As at the date of this announcement, the Group has not entered into any legally binding definitive agreement for the Possible Disposal. Further details of the Possible Disposal are set out in the announcement of the Company dated 7 July 2017.

Save as disclosed above, there were no significant events of the Group occurred since the end of 1H-2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities.

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	3	1,429,022	1,325,658
Cost of sales		(1,264,547)	(1,124,405)
Gross profit		164,475	201,253
Other income	5	32,782	32,926
Other gains and losses	5	17,796	(3,391)
Research and development expenses		(39,642)	(41,280)
Selling and distribution costs		(63,937)	(64,828)
Administrative expenses		(58,672)	(67,027)
Share of results of associates		(811)	(747)
Finance costs		(2,957)	(4,639)
Profit before taxation		49,034	52,267
Taxation	6	(17,262)	(19,518)
Profit for the period	7	31,772	32,749
Profit/(loss) for the period attributable to:			
Owners of the Company		35,685	31,012
Non-controlling interests		(3,913)	1,737
		31,772	32,749
Earnings per share (HK cents)	9		
Basic		1.4	1.2
Diluted		1.4	1.2

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Profit for the period	7	31,772	32,749
Other comprehensive (expense) income for the period:			
Items that may be subsequently reclassified to profit or loss during the period:			
Fair value change on available-for-sale investment		(79,593)	-
Deferred tax arising from fair value change on available-for-sale investment		19,898	-
Items that will not be subsequently reclassified to profit or loss for the period:			
Exchange difference arising on translation to presentation currency		8,111	(5,026)
Other comprehensive expense for the period		(51,584)	(5,026)
Total comprehensive (expense) income for the period		(19,812)	27,723
Total comprehensive (expense) income attributable to:			
Owners of the Company		(18,115)	26,846
Non-controlling interests		(1,697)	877
		(19,812)	27,723

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

		30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
	NOTES		
Non-current assets			
Investment properties	10	363,909	350,779
Property, plant and equipment	10	366,196	376,914
Land use rights		84,808	84,185
Intangible assets	10	177,504	148,405
Deferred tax assets	12	44,309	43,719
Finance lease receivables		264	637
Interests in associates		2,990	3,800
Available-for-sale investments	25	107,855	187,448
Consideration receivable	20	1,662	1,621
		1,149,497	1,197,508
Current assets			
Inventories	15	853,180	737,417
Finance lease receivables		3,365	6,085
Properties under development for sale		332,829	359,130
Properties held for sale		208,876	167,355
Trade and notes receivables	14	332,332	258,321
Other receivables, deposits and prepayments		345,225	275,090
Amount due from an associate	17	2,600	2,000
Amounts due from non-controlling shareholders of subsidiaries	17	11,633	11,633
Consideration receivable	20	694	676
Entrusted loan receivables	13	69,360	112,700
Pledged bank deposits		40,460	76,636
Bank balances and cash		265,191	249,132
		2,465,745	2,256,175
Asset classified as held for sale	11	–	26,117
		2,465,745	2,282,292

INTERIM FINANCIAL STATEMENTS

		30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
	NOTES		
Current liabilities			
Trade and notes payables	16	437,294	374,218
Other payables, deposits received and accruals		642,508	423,995
Amounts due to a non-controlling shareholder of a subsidiary	17	36,530	35,613
Bank borrowings	18	199,476	299,991
Derivative financial instruments	25	7,588	-
Tax payable		28,353	23,138
		1,351,749	1,156,955
Liability associated with asset classified as held for sale	11	-	24,794
		1,351,749	1,181,749
Net current assets		1,113,996	1,100,543
Total assets less current liabilities		2,263,493	2,298,051
Capital and reserves			
Share capital	19	255,790	255,790
Reserves		1,754,136	1,770,956
Equity attributable to owners of the Company		2,009,926	2,026,746
Non-controlling interests		103,493	105,801
Total equity		2,113,419	2,132,547
Non-current liabilities			
Deferred tax liabilities	12	100,543	111,638
Deferred income		49,531	53,866
		150,074	165,504
		2,263,493	2,298,051

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company												
	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	Properties revaluation reserve HK\$'000	Asset 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 2016 (audited)	255,790	831,363	40,623	97,091	30,888	102,827	-	2,282	177,573	357,342	1,895,779	102,605	1,998,384
Profit for the period	-	-	-	-	-	-	-	-	-	31,012	31,012	1,737	32,749
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	(4,166)	-	(4,166)	(890)	(5,026)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	(4,166)	31,012	26,846	877	27,723
Share options lapsed	-	-	-	-	(4,125)	-	-	-	-	4,125	-	-	-
Recognition of equity settled share-based payments	-	-	-	-	1,452	-	-	-	-	-	1,452	-	1,452
Capital injection from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1,382	1,382
Capital reduction of non-wholly owned subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,220)	(2,220)
Transfer to statutory surplus reserve	-	-	3,955	-	-	-	-	-	-	(3,955)	-	-	-
At 30 June 2016 (unaudited)	255,790	831,363	44,578	97,091	28,215	102,827	-	2,282	173,407	388,524	1,924,077	102,644	2,026,721
At 1 January 2017 (audited)	255,790	831,363	48,059	97,091	29,512	102,827	127,930	2,282	100,428	431,484	2,026,746	105,801	2,132,547
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	35,685	35,685	(3,913)	31,772
Other comprehensive (expense) income for the period	-	-	-	-	-	-	(50,695)	-	5,885	-	(53,800)	2,216	(51,584)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	(50,695)	-	5,885	35,685	(18,115)	(1,697)	(19,812)
Share options lapsed	-	-	-	-	(149)	-	-	-	-	149	-	-	-
Recognition of equity settled share-based payments	-	-	-	-	1,282	-	-	-	-	-	1,282	-	1,282
Acquisition of additional interests in subsidiaries	-	-	-	13	-	-	-	-	-	-	13	(129)	(116)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(482)	(482)
Transfer to statutory surplus reserve	-	-	2,045	-	-	-	-	-	-	(2,045)	-	-	-
At 30 June 2017 (unaudited)	255,790	831,363	50,084	97,104	30,645	102,827	68,235	2,282	106,323	465,273	2,009,926	103,493	2,113,419

INTERIM FINANCIAL STATEMENTS

Notes:

- (a) As stipulated by the relevant laws and regulations of the People's Republic of China ("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 for 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 was arisen from the reorganisation in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Movement of other reserve during the period ended 30 June 2017 was arisen from the effect due to changes in the Group's ownership interests in existing subsidiaries without losing control.

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	145,023	159,483
(Increase) decrease in properties under development for sales and properties held for sales	(1,651)	2,020
Other movements in working capitals	7,213	2,048
Cash generated from operations	150,585	163,551
Interest received	5,765	8,736
Tax paid	(4,516)	(2,012)
NET CASH FROM OPERATING ACTIVITIES	151,834	170,275
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,809)	(41,828)
Proceeds on disposal of property, plant and equipment	724	-
Expenditure paid for intangible assets	(110,259)	(97,256)
Consideration received from disposal of an associate	10,059	-
Net cash outflow from disposal of a subsidiary	(54)	-
Injection from non-controlling shareholders of subsidiaries	-	4,972
Investment in entrusted loan receivables	(34,230)	(35,190)
Receipt of entrusted loan receivables	79,870	38,709
Placement of pledged bank deposits	(29,666)	(50,968)
Withdrawal of pledged bank deposits	67,319	102,690
Dividend received	171	-
NET CASH USED IN INVESTING ACTIVITIES	(26,875)	(78,871)

INTERIM FINANCIAL STATEMENTS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
New bank borrowings raised	117,017	159,570
Repayments of bank borrowings	(223,848)	(286,566)
Interest paid	(2,957)	(4,639)
Net cash used in acquisitions of additional interests of subsidiaries	(116)	-
Repayment to non-controlling shareholders of subsidiaries	-	(9,397)
NET CASH USED IN FINANCING ACTIVITIES	(109,904)	(141,032)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,055	(49,628)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	249,132	298,386
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,004	(3,071)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	265,191	245,687

INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 the manufacturing, design and development and sale of handsets, solutions and intelligent terminals, wireless communication modules, carrying out internet of things business and intelligent manufacturing business and property development in the PRC.

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB that are mandatorily effective for the current interim period.

The amendments to IAS 7 "Disclosure initiative" apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

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

3. REVENUE

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

4. SEGMENT INFORMATION

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

During the six-month period ended 30 June 2017, the Group was organised into five (2016: five) reportable and operating segments, being sale of handsets, solutions and intelligent terminals, sale of wireless communication modules, internet of things business, intelligent manufacturing business and property development.

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

For the six months ended 30 June 2017 (unaudited)

	Sale of handsets, solutions and intelligent terminals HK\$'000	Sale of wireless communication modules HK\$'000	Internet of things business HK\$'000 <i>(Note)</i>	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Consolidated HK\$'000
Revenue						
External sales	516,217	655,009	145,938	44,423	67,435	1,429,022
Segment profit (loss)	10,715	25,582	(8,686)	2,056	969	30,636
Other income and other gains and losses						37,817
Share of results of associates						(811)
Corporate expenses						(15,651)
Finance costs						(2,957)
Profit before taxation						49,034

INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (unaudited)

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

Note: The internet of things business is still in a developing stage in both periods. The revenue of this segment represents the income generated from equipment finance lease service, sale of goods to vending machine customers and franchisees, and provision of procurement agency service.

INTERIM FINANCIAL STATEMENTS

Segment result represents the financial result by each segment without allocation of gain from changes in fair values of investment properties, rental income, interest income, unallocated exchange (loss) gain, loss on disposal of property, plant and equipment, gain on disposal of an associate, fair value change on derivative financial instruments, share of results of associates, corporate expenses, finance costs and taxation.

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

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Segment assets		
Sale of handsets, solutions and intelligent terminals	800,774	859,359
Sale of wireless communication modules	732,319	494,816
Internet of things business	158,520	185,400
Intelligent manufacturing business	278,248	232,582
Property development	647,225	597,743
Total segment assets	2,617,086	2,369,900
Unallocated assets	998,156	1,109,900
Total assets	3,615,242	3,479,800
Segment liabilities		
Sale of handsets, solutions and intelligent terminals	340,583	384,528
Sale of wireless communication modules	246,483	111,910
Internet of things business	17,246	11,011
Intelligent manufacturing business	71,043	67,822
Property development	486,209	299,548
Total segment liabilities	1,161,564	874,819
Unallocated liabilities	340,259	472,434
Total liabilities	1,501,823	1,347,253

INTERIM FINANCIAL STATEMENTS

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

For the purposes of monitoring segment performances and allocating resources between segments, all liabilities are allocated to reportable and operating segments other than certain other payables, deposits received and accruals, tax payable, bank borrowings, derivative financial instruments, deferred tax liabilities and liability associated with asset classified as held for sale.

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5. OTHER INCOME/OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income		
Refund of Value Added Tax ("VAT") (Note i)	5,876	4,289
Government grants (Note ii)	8,850	7,761
Dividend income from available-for-sale investment	171	-
Interest income earned on bank balances	1,082	1,781
Interest income earned on entrusted loan receivables	4,683	3,746
Rental income (Less: outgoings of HK\$1,103,000 (six months ended 30 June 2016: HK\$1,658,000))	11,956	15,187
Others	164	162
	32,782	32,926
Other gains and losses		
Loss on disposal of property, plant and equipment	(256)	(713)
Net foreign exchange gain (loss)	12,865	(3,489)
Changes in fair values of investment properties	4,051	5,555
Gain on disposal of an associate	8,736	-
Loss on disposal of a subsidiary	(8)	-
Fair value change on derivative financial instruments	(7,588)	-
Net allowance for bad and doubtful debts	(4)	(4,744)
	17,796	(3,391)

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Notes:

- (i) Shanghai Simcom Limited ("Shanghai Simcom") and Shanghai Simcom Wireless Solutions Limited ("Simcom Wireless") are engaged in the business of distribution of self-developed and produced software and the development of automated test equipment and software. Under the current PRC tax regulation, they are entitled to a refund of VAT paid for sales of self-developed and produced software and the development of automated test software in the PRC.
- (ii) During the six months ended 30 June 2017, the amount includes HK\$3,203,000 (six months ended 30 June 2016: HK\$3,775,000) 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 six months ended 30 June 2016, the Group received HK\$9,363,000 government grants towards the cost of development on wireless communication modules and handset modules in Shanghai and Shenyang. The amounts received were deferred and transferred to other income to match actual expenditure used in research and development activities and HK\$5,647,000 (six months ended 30 June 2016: HK\$3,986,000) was recognised in the profit or loss during the current period.

As at 30 June 2017, an amount of HK\$52,883,000 (31 December 2016: HK\$57,134,000) remained to be amortised and is included in other payables (for current portion) and deferred income (for non-current portion).

INTERIM FINANCIAL STATEMENTS

6. TAXATION

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Taxation comprises:		
PRC Enterprise Income Tax ("EIT")	(9,698)	(12,778)
PRC Land Appreciation Tax ("LAT")	(1,320)	(2,251)
Overprovisions on PRC EIT in previous years	692	985
Deferred tax charge (<i>Note 12</i>)	(6,936)	(5,474)
Taxation for the period	(17,262)	(19,518)

No provision for Hong Kong Profits Tax has been made for both periods as the Group has no assessable profits arising in Hong Kong.

EIT is calculated at the rates prevailing in the relevant districts of the PRC taking relevant tax incentives into account. Shanghai Simcom, Simcom Wireless, Shenyang SIM Simcom Technology Limited and Shanghai Sunrise Simcom Limited ("Shanghai Sunrise Simcom") are classified as New and High Technology Enterprise and is entitled to adopt a tax rate of 15% (six months ended 30 June 2016: Shanghai Simcom, Simcom Wireless and Shanghai Sunrise Simcom was classified as New and High Technology Enterprise and was entitled to adopt an applicable tax rate of 15%). The relevant annual tax rate used for PRC Enterprise Income Tax for the Group's subsidiaries ranged from 15% to 25% (six months ended 30 June 2016: 15% 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 2016: 30% to 60%) of the appreciation value, with certain allowable deductions.

INTERIM FINANCIAL STATEMENTS

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period is arrived at after charging:		
Amortisation of intangible assets (included in cost of sales)	88,651	74,286
Less: Amount capitalised in development costs	(1,734)	(177)
	86,917	74,109
Amortisation of land use rights	1,524	1,578
Depreciation of property, plant and equipment	29,983	34,534
Less: Amount capitalised in development costs	(1,610)	(1,516)
	28,373	33,018
Staff costs including directors' emoluments	137,314	147,114
Share-based payments	1,282	1,452
Less: Amount capitalised in development costs	(80,461)	(62,612)
	58,135	85,954
Minimum operating lease rentals in respect of land and buildings	6,890	4,795
Less: Amount capitalised in development costs	(1,952)	(1,434)
	4,938	3,361
Costs of inventories recognised as an expense (included in cost of sales)	1,205,543	1,026,337
Costs of properties sold (included in cost of sales)	59,004	98,068
	1,264,540	1,128,163

INTERIM FINANCIAL STATEMENTS

8. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	35,685	31,012
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,557,897	2,557,897
Effect of dilutive potential ordinary shares – share options	–	2,469
Weighted average number of ordinary shares for the propose of diluted earnings per share	2,557,897	2,560,366

INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise prices of these share options were higher than the average market price of the shares of the Company for the period.

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 2017 and 31 December 2016 have been arrived at on the basis of a valuation carried out on that date by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer 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 lease and reasonable and supportable assumptions that represent what knowledgeable willing parties would assume about rental income for future leases in the 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 from 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 works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and 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 2017 is HK\$363,909,000 (31 December 2016: HK\$350,779,000) and a fair value gain of HK\$4,051,000 (six months ended 30 June 2016: HK\$5,555,000) have been recognised directly in profit or loss for the six months ended 30 June 2017.

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Property, plant and equipment

During the current interim period, additions to the Group's property, plant and equipment amounted to HK\$10,809,000 (six months ended 30 June 2016: HK\$41,828,000).

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$980,000 (six months ended 30 June 2016: HK\$713,000) for cash proceeds of HK\$724,000 (six months ended 30 June 2016: HK\$nil), resulting in a loss on disposal of HK\$256,000 (six months ended 30 June 2016: HK\$713,000).

Intangible assets

During the current interim period, additions to the Group's intangible assets amounted to HK\$113,603,000 (six months ended 30 June 2016: HK\$97,256,000) including addition to development costs of HK\$112,038,000 (six months ended 30 June 2016: HK\$97,246,000) for development projects on the products.

INTERIM FINANCIAL STATEMENTS

11. ASSET CLASSIFIED AS HELD FOR SALE/LIABILITY ASSOCIATED WITH ASSET CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2014, the Group entered into a sale and purchase agreement ("Sale and Purchase Agreement") with the then major shareholder ("Acquirer") of Xian Helicopter Co., Ltd. ("Xian Helicopter"), to dispose of the Group's entire 30% equity interest in Xian Helicopter for a consideration of RMB26,160,000 which will be settled by three instalments. As at 31 December 2016, part of the consideration amounting to RMB22,000,000 (equivalent to approximately HK\$24,794,000) had been received by the Group and the remaining RMB4,160,000 (equivalent to approximately HK\$4,537,000) has not been settled. The transaction would be completed upon the receipt of the full consideration by the Group. As at 31 December 2016, the interest in Xian Helicopter was classified as asset classified as held for sale and the consideration received of HK\$24,794,000 was classified as liability associated with asset classified as held for sale.

During the period ended 30 June 2017, the remaining consideration has been fully settled and the disposal is completed. The Group also received late payment charge of RMB4,840,000 (equivalent to approximately HK\$5,522,000) from the Acquirer upon completion of the disposal. As a result, gain on disposal of the interest in an associate of HK\$8,736,000 was recognised to profit or loss during the period ended 30 June 2017.

INTERIM FINANCIAL STATEMENTS

12. DEFERRED TAXATION

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

	Revaluation of available-for-sale investment	Development cost capitalised	Write-down of inventories and trade receivables	Impairment of property, plant and equipment	Revaluation of investment properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2016 (audited)	(42,643)	(13,367)	28,069	14,119	(54,097)	(67,919)
Exchange differences	-	(414)	179	362	(1,404)	(1,277)
Charge to profit or loss (Note 6)	-	(5,325)	(598)	-	(1,013)	(6,936)
Charge to other comprehensive income	19,898	-	-	-	-	19,898
At 30 June 2017 (unaudited)	(22,745)	(19,106)	27,650	14,481	(56,514)	(56,234)

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

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Deferred tax assets	44,309	43,719
Deferred tax liabilities	(100,543)	(111,638)
	(56,234)	(67,919)

INTERIM FINANCIAL STATEMENTS

13. ENTRUSTED LOAN RECEIVABLES

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Carrying amount receivable based on maturity set out in the loan agreements		
Within one year	69,360	112,700

As at 30 June 2017, the Group's wholly owned subsidiary, Shanghai Suncom Logistics Limited ("Suncom Logistics") had an entrusted loan agreement with Bank of Communications. Pursuant to the agreement, Suncom Logistics entrusted an aggregated amount of RMB30,000,000 (equivalent to approximately HK\$34,680,000) to a specific corporate borrower at an interest rate of 10% per annum. Bank of Communications acted as the trustee of this entrusted loan. Trustee fee of 0.1% per month is charged. This entrusted loan will be matured in March 2018.

As at 30 June 2017 and 31 December 2016, Suncom Logistics also had an entrusted loan agreement with Shanghai Pudong Development Bank. Pursuant to the agreement, Suncom Logistics entrusted an aggregated amount of RMB30,000,000 (equivalent to approximately HK\$34,680,000) (31 December 2016: HK\$33,810,000) to a specific corporate borrower at an interest rate of 8.6% per annum. Shanghai Pudong Development Bank acted as the trustee of the entrusted loan for a trustee fee of 0.1% per month. This entrusted loan will be matured in August 2017.

INTERIM FINANCIAL STATEMENTS

As at 31 December 2016, Suncom Logistics had two entrusted loan agreements with China Fortune Securities Co. Ltd. ("China Fortune") and China Minsheng Banking Corp., Ltd. Shanghai Branch ("Minsheng Bank"). Pursuant to these agreements, Suncom Logistics entrusted an aggregated amount of RMB40,000,000 (equivalent to approximately HK\$45,080,000) to a specific corporate borrower at an interest rate of 9.25% per annum. China Fortune acted as a manager to manage the entrusted loan for a management fee of 1.2% per annum and Minsheng Bank acted as the trustee of the entrusted loan for a trustee fee of 0.05% per month. These entrusted loans have been fully settled during the six months ended 30 June 2017.

As at 31 December 2016, Suncom Logistics had an entrusted loan agreement with Bank of Communications. Pursuant to the agreement, Suncom Logistics entrusted an aggregated amount of RMB30,000,000 (equivalent to approximately HK\$33,810,000) to a specific corporate borrower at an interest rate of 10% per annum. Bank of Communications acted as the trustee of this entrusted loan. Trustee fee of 0.1% per month is charged. This entrusted loan has been fully settled during the six months ended 30 June 2017.

As at 30 June 2017 and 31 December 2016, no entrusted loan receivables have been past due or impaired.

For the six months ended 30 June 2017, interest income generated from entrusted loans amounted to HK\$4,683,000 (six months ended 30 June 2016: HK\$3,746,000) and was recognised as other income.

All the Group's entrusted loan receivables are denominated in RMB, which is the functional currency of the respective group companies.

INTERIM FINANCIAL STATEMENTS

14. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods relating to handsets, solutions and intelligent terminals 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 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Trade receivables		
0-30 days	202,292	164,342
31-60 days	66,778	31,917
61-90 days	23,883	26,616
91-180 days	13,667	14,260
Over 180 days	36,076	19,163
	342,696	256,298
Less: Accumulated allowances	(22,388)	(21,821)
	320,308	234,477
Notes receivables (<i>Note</i>)		
0-30 days	11,682	23,324
31-60 days	196	-
61-90 days	146	520
	12,024	23,844
Trade and notes receivables	332,332	258,321

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

INTERIM FINANCIAL STATEMENTS

15. INVENTORIES

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Raw materials	444,681	448,608
Work in progress	108,652	55,201
Finished goods	299,847	233,608
	853,180	737,417

16. 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.

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 and notes payables at the end of the reporting period presented based on the invoice dates for trade payables or dates of issuance for notes payables is as follows:

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
0-30 days	383,658	327,308
31-60 days	22,261	21,918
61-90 days	6,673	9,316
Over 90 days	24,702	15,676
	437,294	374,218

INTERIM FINANCIAL STATEMENTS

17. AMOUNTS DUE FROM/TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES AND AN ASSOCIATE

Amounts due from/to non-controlling shareholders of subsidiaries and an associate are unsecured, interest-free and repayable on demand.

18. BANK BORROWINGS

During the current period, the Group obtained new short-term bank borrowings with total amount of HK\$117,017,000 (six months ended 30 June 2016: HK\$159,570,000). The bank borrowings carry variable interest at London Interbank Offered Rate ("LIBOR") or Loan Prime Rate ("LPR") plus a spread ranging from 1.8% to 5.6% per annum (six months ended 30 June 2016: variable interest ranged from 1.6% to 3.8% per annum) 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 rights and notes receivables.

19. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
<hr/>		
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2017 and 30 June 2017	3,000,000	300,000
Issued:		
At 1 January 2017 and 30 June 2017	2,557,897	255,790
<hr/>		

INTERIM FINANCIAL STATEMENTS

20. CONSIDERATION RECEIVABLE

During the year ended 31 December 2015, the Group disposed of its 60% equity interest in 上海鼎希物聯網科技有限公司 (unofficial English name being Shanghai Dingxi Internet of Things Technology Limited) ("Shanghai Dingxi") at a total consideration of RMB4,000,000 to the non-controlling shareholder ("Purchaser") of Shanghai Dingxi ("Disposal"). The consideration will be satisfied by cash, of which (i) the first instalment of RMB1,200,000 will be settled at the date of the completion of the Disposal; (ii) the second instalment of RMB600,000 will be settled on the 90th day of the date of the completion of the Disposal; and (iii) the final instalment of RMB2,200,000 will be settled at the third anniversary date of the date of completion of the Disposal. The settlement date of final instalment of RMB2,200,000 could be delayed to the sixth anniversary date of the date of completion of the Disposal at the discretion of the Purchaser. Fair value of the consideration receivable is estimated by using discounted cash flow method with imputed interest rate of 7.345% per annum at initial recognition and subsequently measured at amortised cost. As at 30 June 2017, the unsettled consideration of RMB2,038,000 (30 June 2017: equivalent to approximately HK\$2,356,000, 31 December 2016: equivalent to approximately HK\$2,297,000) was recorded as consideration receivable in the condensed consolidated statement of financial position.

INTERIM FINANCIAL STATEMENTS

21. OPERATING LEASE ARRANGEMENTS

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 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Within one year	4,483	8,575
In the second to fifth year inclusive	1,102	2,223
	5,585	10,798

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 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Within one year	23,889	25,197
In the second to fifth year inclusive	22,583	38,791
After five years	95	554
	46,567	64,542

INTERIM FINANCIAL STATEMENTS

22. COMMITMENTS

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Expenditure in respect of investment in an associate contracted for but not provided in the condensed consolidated financial statements	4,624	4,508
Expenditure in respect of properties under development for sale contracted for but not provided in the condensed consolidated financial statements	26,952	52,920

23. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2016, the capital injection of HK\$520,000 from non-controlling shareholders of certain non-wholly owned subsidiaries remained unsettled and included in amounts due from non-controlling shareholders of subsidiaries as at 30 June 2016.

INTERIM FINANCIAL STATEMENTS

24. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term benefits	2,859	2,928
Post-employment benefits	143	164
	3,002	3,092

25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

INTERIM FINANCIAL STATEMENTS

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)
	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)		
Financial assets:				
Available-for-sale investments	107,855	187,448	Level 1	Quoted bid prices in an active market.
Financial liabilities:				
Foreign currency forward contract classified as derivative financial instruments	7,588	-	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rate at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated statement of financial position approximate their fair values.

26. EVENT AFTER REPORTING PERIOD

On 7 July 2017, the Group entered into a letter of intent for a possible disposal of two wholly-owned subsidiaries of the Company which principally engage in sale of wireless communication modules ("the Possible Disposal"). As at the date of this report, the Group has not entered into any legally binding definitive agreement for the Possible Disposal. Further details of the Possible Disposal is set out in the announcement of the Company dated 7 July 2017.

OTHER INFORMATION

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

At 30 June 2017, 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 Future Ordinance (Chapter 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 (the "Listing Rules"), were as follows:

Long position in the shares of the Company

Name of director	Nature of interest	Total number of ordinary shares of the Company	Underlying shares of the Company	Total	Approximate percentage of interest in the Company (note 3)
Mr Wong Cho Tung	Corporate interest (note 1)	1,209,084,000		1,209,084,000	47.27%
	Personal interest	3,098,000		3,098,000	0.12%
	Total			1,212,182,000	47.39%
Ms Yeung Man Ying	Corporate interest (note 2)	734,857,000		734,857,000	28.73%
	Personal interest	3,418,000		3,418,000	0.13%
	Total			738,275,000	28.86%
Ms Tang Rongrong	Personal interest	-	4,446,000	4,446,000	0.17%
Mr Chan Tat Wing Richard	Personal interest	-	5,382,000	5,382,000	0.21%
Mr Liu Hong	Personal interest	-	1,446,120	1,446,120	0.06%
Mr Liu Jun	Personal interest	1,000,000	936,000	1,936,000	0.08%

OTHER INFORMATION

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. Mr Wong is the sole director of Intellipower Investments Limited ("Intellipower") and Simcom Limited ("Simcom (BVI)") is wholly-owned by Mr Wong. Therefore, Mr Wong is 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 respectively.
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 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 2,557,896,300 shares of the Company as at 30 June 2017.

As at 30 June 2017, save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or 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.

OTHER INFORMATION

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

As at 30 June 2017, the interests of the substantial shareholders and other persons (other than Directors or chief executives of the Company) in the shares and underlying shares 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	Total 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 2,557,896,300 shares of the Company as at 30 June 2017.
2. The relationship between Info Dynasty and Mr Wong and the relationship between Info Dynasty and Mrs Wong is disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Position in Shares" above.
3. The relationship between Intellipower and Mr Wong is disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Position in Shares" above.

Save as disclosed above, as at 30 June 2017, there is no other substantial shareholders or persons who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under the section 336 of the SFO.

OTHER INFORMATION

SHARE OPTIONS

The Company has granted share options under its share option scheme adopted in accordance with Chapter 17 of the Listing Rules. Details of outstanding share options and the movements during the six months ended 30 June 2017 are as follows:

Category of participants	Date of grant	Outstanding at 1 January 2017	Exercised during the period	Lapsed/expired during the period	Outstanding at 30 June 2017
Directors					
Ms Tang Rongrong	28.3.2008	936,000	-	-	936,000
	3.9.2009	3,510,000	-	-	3,510,000
Mr Chan Tat Wing, Richard	28.3.2008	1,872,000	-	-	1,872,000
	3.9.2009	3,510,000	-	-	3,510,000
Mr Liu Hong	13.11.2007	117,000	-	-	117,000
	28.3.2008	393,120	-	-	393,120
	3.9.2009	936,000	-	-	936,000
Mr Liu Jun	3.9.2009	936,000	-	-	936,000
Sub-total		12,210,120	-	-	12,210,120

OTHER INFORMATION

Category of participants	Date of grant	Outstanding at 1 January 2017	Exercised during the period	Lapsed/expired during the period	Outstanding at 30 June 2017
Employees of the Group	13.11.2007	3,542,175	-	(35,100)	3,507,075
	28.3.2008	12,415,455	-	(42,120)	12,373,335
	3.9.2009	38,487,465	-	(280,800)	38,206,665
	19.7.2013	16,913,000	-	-	16,913,000
Consultants	19.7.2013	45,400,000	-	-	45,400,000
Sub-total		116,758,095	-	(358,020)	116,400,075
Total		128,968,215	-	(358,020)	128,610,195

Notes:

- In relation to each grantee of the options granted on 13 November 2007, 25% of the options will vest in each of the four calendar years from 1 April 2008. The exercise price per share is HK\$1.40 and the exercise period is 1 April 2008 to 12 November 2017.
- In relation to each grantee of the options granted on 28 March 2008, 25% of the options will vest in each of the four calendar years from 15 April 2009. The exercise price per share is HK\$0.69 and the exercise period is 15 April 2009 to 27 March 2018.
- In relation to each grantee of the options granted on 3 September 2009, 25% of the options will vest in each of the four calendar years from 15 April 2010. The exercise price per share is HK\$0.68 and the exercise period is 15 April 2010 to 2 September 2019.
- In relation to each grantee of options granted on 19 July 2013, 25% of options will vest in each of the four years from 15 April 2014. The exercise price per share is HK\$0.346 and the exercise period is 15 April 2014 to 18 July 2023.
- There was no share options granted during the six months ended 30 June 2017.

OTHER INFORMATION

Save as disclosed above, at no time during 1H-2017 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-2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed 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 Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for 1H-2017.

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

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

OTHER INFORMATION

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 8 June 2017 ("2017 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 2017 AGM pursuant to the bye-laws of the Company and was available to answer questions. Mr Liu Hing Hung, an independent non-executive Director and the chairman of the remuneration committee of the Board and the audit committee of the Board ("Audit Committee"), was also available at the 2017 AGM to answer questions from Shareholders.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that each of them has fully complied with the required standard as set out in the Model Code during 1H-2017.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated interim financial information of the Group for 1H-2017. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2017 have been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu. The Audit Committee comprises all three independent non-executive Directors.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms YEUNG Man Ying (*Chairman*)
Mr WONG Cho Tung (*President*)
Ms TANG Rongrong
Mr CHAN Tat Wing, Richard
Mr LIU Hong
Mr LIU Jun (*Chief executive officer*)

Independent non-executive Directors

Mr LIU Hing Hung
Mr XIE Linzhen
(*resigned as Independent non-executive Director with effect from 18 April 2017*)
Mr DONG Yunting
(*resigned as Independent non-executive Director with effect from 18 April 2017*)
Mr WANG Tianmiao
(*appointed as Independent non-executive Director with effect from 18 April 2017*)
Mr WU Zhe
(*appointed as Independent non-executive Director with effect from 18 April 2017*)

AUDIT COMMITTEE

Mr LIU Hing Hung (*Chairman*)
Mr XIE Linzhen
(*resigned as a member of Audit Committee with effect from 18 April 2017*)
Mr DONG Yunting
(*resigned as a member of Audit Committee with effect from 18 April 2017*)
Mr WANG Tianmiao
(*appointed as a member of Audit Committee with effect from 18 April 2017*)
Mr WU Zhe
(*appointed as a member of Audit Committee with effect from 18 April 2017*)

REMUNERATION COMMITTEE

Mr LIU Hing Hung (*Chairman*)
Mr XIE Linzhen
(*resigned as a member of Remuneration Committee with effect from 18 April 2017*)
Mr DONG Yunting
(*resigned as a member of Remuneration Committee with effect from 18 April 2017*)
Mr WANG Tianmiao
(*appointed as a member of Remuneration Committee with effect from 18 April 2017*)
Mr WU Zhe
(*appointed as a member of Remuneration Committee with effect from 18 April 2017*)
Mr Wong Cho Tung

COMPANY SECRETARY

Ms WONG Tik
(*resigned as Company Secretary with effect from 28 June 2017*)
Ms Chan Chi Yin
(*appointed as Company Secretary with effect from 28 June 2017*)

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISER AS TO HONG KONG LAW

LEUNG & LAU

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of Communications
Shanghai Pudong Development Bank

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STOCK CODE

2000