SIM Technology

# SIM Technology Group Limited

( Incorporated in Bermuda with limited liability )

( Stock Code : 2000 )

Interim Report **2018**

# 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 2018.

## BUSINESS REVIEW

The first half of 2018 marked a significant stage in the Group's transformation. First, with respect to the development of handsets and the internet of things ("IOT") terminal business, the Group has steadfastly transformed the business and shifted towards the IOT/industrial application terminals markets. The Group has transformed its modules business into the provision of electronics manufacturing services ("EMS") for modules after the disposal of the research and development ("R&D") and sales operations of its wireless communication modules business to Shenzhen Sunsea Communication Technology Co., Ltd. (深圳日海通訊技術股份有限公司*) ("Shenzhen Sunsea"). Moreover, thanks to the vigorous efforts it has devoted over the past few years, the intelligent manufacturing business has begun to bear fruit, with significant growth in both the sales amount and gross profit. Lastly, as for the IOT systems and O2O business, the Group is still exploring the development model for this business.

Amid the external economic environment, affected by factors such as large fluctuation of exchange rates and intensified market competition, the Group still managed to maintain steady and healthy development. In the first half of 2018, turnover was basically flat and was similar to that of the last year, whereas gross profit has dropped slightly. Since the nature of its modules business has changed from an original brand manufacturer ("OBM") to an EMS, the turnover and gross profit inevitably experienced a certain drop during the period of business transformation adjustment. However, the development of new business and other businesses compensated for the decline in turnover and gross profit resulting from the transformation of the modules business. The overall business is still developing healthfully.

# CHAIRMAN'S STATEMENT

**Handsets and IOT terminals business**

In the first half of 2018, the consumer handsets market continued to focus on specific models and brands. The market share of domestic mainstream brands and models has further expanded while that of the second and third-tier brands has further shrunk. At the same time, with the domestic mainstream handset brands stepping up their marketing efforts in overseas markets, the competition in those overseas markets has intensified. As the consumer handset market has become saturated and the consumer market for different industrial terminal sub-segments has gradually emerged, demand in the market has been increasing for industrial terminal with special features such as triple protection (waterproof, dust-proof and shock resistant), affordable luxury and encryption. In addition, with the rapid expansion of the Narrowband IOT ("NB-IOT") network and the official commercial deployment of 5G networks in 2018 and the coming few years, the available market for IOT applications is expected to experience rapid development worldwide. The terminal markets including the Internet of Vehicles terminals, intelligent hardware, wearable devices, such as smart bracelets and watches, Augmented Reality ("AR") and Virtual Reality ("VR") devices, etc., will undergo explosive growth accordingly.

Turnover of this business segment achieved HK$431.3 million, representing a year-on-year decrease of 16.4%. Gross profit margin was 12.3%, which was similar to last year with a slight increase. The decline in turnover was due to a further decrease in the proportion of the turnover from mid-range and high-end consumer handsets to the total turnover of the Group, and the apparent drop in the selling price of the IOT/industrial application terminals and some differentiated high-end handset products when compared with the corresponding period last year due to greater market competition. Regarding cost controls, the Group has adopted a series of measures in the supply chain and its own factory in order to lower costs and improve efficiency. As a result, the procurement cost of certain materials and the processing cost of individual products were obviously lower. Besides, the Group has continued to implement automatic testing in its handsets and terminals production lines, thereby further reducing the cost pressure caused by the rising labour cost. However, due to the substantial appreciation of the US dollar since the beginning of 2018, the US dollar-denominated electronics are expected to push up the cost and offset the above-mentioned cost savings to a certain extent. As a result, the gross profit margin has remained at a similar level as the last corresponding period.

**Wireless communication modules business**

The disposal of the R&D and sales operations of the shared wireless communication modules business to Shenzhen Sunsea was completed in the first half of 2018. The nature of the Group's business has changed after the disposal. Prior to the disposal, the Group's subsidiary Shanghai Simcom Wireless Solutions Limited operated the shared 2G, 3G and 4G wireless communication modules and Global Navigation Satellite System ("GNSS") modules business. After the disposal, the Group changed from OBM to EMS and merely provides EMS for the abovementioned modules to external parties.

In the first half of 2018, this segment achieved a turnover of HK$501.0 million and a gross profit of HK$26.0 million, representing a decrease of 23.5% and 60.3% year-on-year respectively. Considering that the Group is no longer responsible for the R&D and sales expenses of the modules business after the disposal, the low gross profit from the EMS model is reasonable. Thus, the modules business has contributed a marginal gross profit. In addition, the unprecedented intense competition in the market this year, the rise of the US dollar-denominated imported material costs caused by the surge in the exchange rate of the US dollar, coupled with the failure to raise the price of its finished products sold in Renminbi in a timely fashion has further dragged down the gross profit. In such a difficult business environment, the Group's EMS customers in turn had to significantly cut the costs. The Group will communicate with customers to explore and optimise the cooperation model in a bid to achieve a mutually beneficial outcome.

**IOT system and O2O business**

This business sector comprises two segments: the first segment is the provision of various types of "cloud" system solutions with a back-end software system as the core; and the second segment is the provision of an O2O cloud trading platform to vending machine operators. (This business segment does not include the IOT terminals business.)

In the first half of 2018, turnover of this segment increased by 6.9% from the last corresponding period, with a gross profit up 25.6%. It was still making a loss, but the loss had shrunk notably from the same period last year. The Group has enhanced the design and R&D of its digital platform, enabling it to provide a "cloud" system solutions, as well as cloud computing and big data services for customers. In light of the rapid development of IOT businesses in China in recent years, the Group began to explore new customers in niche markets including operation of vending machines, vehicle anti-theft systems, health monitoring and children's safety management systems.

Regarding the O2O cloud service platform of automatic vending machines, turnover and gross profit increased in step with the expanding business content. In the first half of 2018, the Group has reduced the business scale of self-operated automatic vending machines through reducing financing and leasing and limiting the investment to fixed assets. At the same time, it has strengthened the cooperation with beverage manufacturers and ChinaUMS, and has gradually launched various promotional activities to increase advertising income and improve overall efficiency. However, the competition in offline services remains intense, so the Group is exploring a suitable development model for this sector.

**Intelligent manufacturing business**

The Group's intelligent manufacturing segment comprises of three business units. The first business unit is for automated equipment with integrated robotic applications, which can replace a large number of labourers in the production lines. This has served as a starting point for the Group to enter the intelligent manufacturing market. The second business unit is for optical system products with machine vision and artificial intelligence ("AI") technology, which can replace a large number of visual inspection workers in the production line. The third business unit is the development of Manufacturing Execution System ("MES") and Warehouse Management System ("WMS") for industrial internet applications, which can replace or assist simple and straightforward computer operations for white-collar workers such as planners and warehouse managers.

Turnover and gross profit of this segment reached HK$90.3 million and HK$21.5 million respectively in the first half of 2018, representing an increase of 103.2% and 38.4% from the same period last year. Turnover and profit were mainly from the sales of the 3C product robotic testing line of the first business unit. With excellent product quality, strong word-of-mouth reputation and reasonable selling prices, the Group has not only gained wide recognition from customers, but also secured lucrative orders. Currently, it occupies most of the market. However, the competition is intensifying in the industry, while the decline in product selling price is due to the huge quantity of products, the rising material prices and labour cost have further reduced the gross profit of this segment.

The Group believes that intelligent manufacturing has huge room for development, and it is also a key area that the Group has emphasized in. To maintain a stable core management team and key technicians while enhancing its competitiveness, the Group is planning a staff shareholding scheme for the first business unit. Some core staff members will be given the opportunity to hold part of the equity interest of a subsidiary in this sector, in order to boost their passion and develop their potential. This scheme has elicited a positive and enthusiastic response among staff, as reflected from the notable growth of turnover and profit of this business unit in the first half of the year. The scheme will be officially implemented in the second half of 2018, and be extended to the other two business units when appropriate.

**Property development**

As at 30 June 2018, "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 1,670 units had been sold.

As at 30 June 2018, "Seven River in Sweet" (七里香溪) in Taizhou City, the PRC, has a total of 748 residential units, 9 shops and 22 commercial units completed in all its two phases, of which 747 residential units, 7 shops and 22 commercial units have been sold and delivered to the buyers.

A significant amount of the above properties are sold and delivered to buyers in 1H-2018, resulting in a huge increase in revenue to HK$330.9 million (2017: HK$67.4 million). Although the gross profit margin dropped to -4.1% (2017: 12.5%), a large portion of tax refund will be applied and confirmed in second half of 2018.

# CHAIRMAN'S STATEMENT

**Property management**

For the six months ended 30 June 2018, the revenue of properties management was mainly derived from the leasing of SIM Technology Building Block A and Block B in Shanghai. Total area of approximately 16,000 square meters was leased out. To utilize our resources more effectively, the Group is developing the property management business by leasing out the spare space at factories and other buildings.

The revenue of property management for the first half of 2018 was amounted to HK$19.0 million and the gross profit margin of leasing was 91.8%.

**Prospects**

The disposal of the modules business will have some impact on the Group's turnover and gross profit in the short term, but it will not have a substantial influence on its overall profitability. Part of the proceeds from the disposal are used to build an operations centre in Dongguan and upgrade a handset factory. The operations centre in Dongguan enables the Group to directly connect to the supply chain in the Pearl River Delta, boasting higher efficiency, lower costs and better overall profitability.

The Group adheres to its development strategy of "retaining its high-end handset ODM business, and actively developing IOT/Industrial application terminals". The Group has gained many quality customers in China and overseas for its product lines including ultra high-end consumer handsets, customised industrial handheld terminals, Internet of Vehicle terminals, smart hardware and core boards, wearable devices, IOT terminals, etc. In the future, the Group will continue developing these target markets by introducing new products to existing customers and securing new customers for current successful products. As industrial and consumption upgrade continues in China, and the IOT and the industrial internet proliferates around the world, we firmly believe stronger demand for differentiated terminals with new form factors will be created in the market. Therefore, the Group will make full use of its competitive advantages in product design and production in of mobile communication and IOT applications to provide more one-stop "cloud" services for industrial customers.

Regarding the IOT system and operating businesses, the economic model and social landscape have changed considerably, along with the quick penetration of new technologies such as the mobile internet, Big Data and Cloud Computing. The IOT market remains fragmented, so the Group's strategy is to monitor niche markets, trying to seize market opportunities as they emerge in order not to miss any opportunities.

Intelligent manufacturing has enormous potential for development. After years of effort, out of three product lines, the automated robotic line has carved out market share in the handsets manufacturing industry. The optical technology-based products have proven to customers that they can create huge value for them. At the same time, the Group has started delivering industrial internet products for customers. As for this segment, the Group's development strategy is to adjust the incentive mechanism to optimise the management model, and select partners to complement its own strengths. In the second half of 2018, the Group will strive to maintain the competitive edge of the first business unit and enlarge the market share there, as well as to achieve a turnaround for the second and third business units.

The management believes that its transformation is on the right track, despite a bumpy road, the light has appeared and a sign of the bright future is ahead for the Group.

**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, 23 August 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For 1H-2018, the revenue of the Group was HK$1,528.6 million (2017: HK$1,429.0 million), in which the revenue from handsets and IOT terminals business, wireless communication modules business, IOT system and O2O business and intelligent manufacturing business (together, "core business") decreased by 13.4% to HK$1,178.6 million (2017: 1,361.6 million) as compared with that of the six months ended 30 June 2017 ("1H-2017"). The revenue from the sale of residential units in Shenyang and Taizhou, PRC was HK$330.9 million in 1H-2018 (2017: HK$67.4 million). The Group has a new reportable and operating segment named as property management in 1H-2018 which generated revenue from leasing of properties. In 1H-2018, the revenue from leasing of properties in Shanghai and Shenyang, PRC was HK$19.0 million.

The gross profit for 1H-2018 for core business of the Group decreased period-to-period by 21.3% to HK$122.9 million (2017: HK$156.0 million). The gross profit margin for core business reduced to 10.4% (2017: 11.5%). The overall gross profit margin of the Group for 1H-2018 was 8.3% (2017: 11.5%).

As a result of the increase in revenue in 1H-2018 and the gain from disposal of subsidiaries, the Group achieved a profit attributable to owners of the Company of HK$330.0 million (2017: HK$35.7 million). The basic earnings per share for 1H-2018 was HK12.9 cents (2017: HK1.4 cents).

### Segment results of core business

| | **Six months ended 30 June 2018** | | | Six months ended 30 June 2017 | | |
|---|---|---|---|---|---|---|
| | **Revenue HK$'M** | **Gross profit HK$'M** | **Gross profit margin %** | Revenue HK$'M | Gross profit HK$'M | Gross profit margin % |
| Handsets and IOT terminals business | **432** | **53** | **12.3** | 516 | 57 | 11.1 |
| Wireless communication modules business | **501** | **26** | **5.2** | 655 | 66 | 10.0 |
| IOT system and O2O business | **156** | **23** | **14.4** | 146 | 18 | 12.3 |
| Intelligent manufacturing business | **90** | **21** | **23.8** | 45 | 15 | 34.9 |
| Total | **1,179** | **123** | **10.4** | 1,362 | 156 | 11.5 |

**Handsets and IOT terminals business**

The revenue of handsets and IOT terminals business for 1H-2018 decreased 16.4% to HK$431.3 million (2017: HK$ 516.2 million) as compared to that of 1H-2017. The Group has adopted various cost reduction and efficiency measures for the supply chain and its own processing plants. The procurement cost of certain materials and the processing cost of stand-alone equipment have been significantly reduced. In addition, the Group continued to promote automated testing in mobile phones and terminals testing in order to further reduce the cost pressure from growth in labor cost. The gross profit margin for this segment increased to 12.3% in 1H-2018 (2017: 11.1%). The revenue of ODM business contributed to approximately 88% of the revenue of this segment in 1H-2018 (2017: 75%).

**Wireless communication modules business**

On 21 December 2017, the Group entered into a sale and purchase agreement with an independent third party under which the Group has conditionally agreed to dispose of two wholly-owned subsidiaries, namely Shanghai Simcom Electronic Limited and Simcom Wireless (collectively referred to as the "Target Companies"), in relation to wireless communication modules business (the Disposal as defined below). The disposal was completed in the current interim period, in which the Group lost control in the Target Companies. According to IFRSs, the gain from disposal of subsidiaries is HK$518.5 million. However, the Group has incurred professional fees of approximately HK$2.9 million, additional staff bonus of approximately HK$12.5 million, redundancy cost of approximately HK$4.1 million, inventories write-off of approximately HK$71.0 million and EIT on capital gain from the Disposal of approximately HK$64.4 million. As stated in the circular of the Company dated 18 January 2018, after deduction of these expenses, the actual net gain from the transactions contemplated under the sale and purchase agreement would be approximately HK$363.6 million. Please refer to the section of "Material Acquisition and Disposal of Subsidiaries and Associated Companies" in this report for further details of the Disposal.

Due to the completion of disposal of wireless communication modules business in 1H-2018, the business nature of this segment was changed from OBM to EMS provider. After the completion of Disposal (as defined below), the Group does not have to bear the R&D and sales expenses of the module business, however the gross profit of EMS is lower than the OBM. In 1H-2018, the revenue of this segment decreased year-on-year by 23.5% and the gross profit margin decreased to 5.2% (2017: 10.0%).

**IOT system and O2O business**

During 1H-2018, the expansion of business content of the online and offline service platform of Yunmao vending machine has brought to an increase in segment revenue and gross profit. The revenue of this segment recorded HK$156.0 million (2017: HK$145.9 million) and the gross profit margin increased to 14.4% (2017: 12.3%).

**Intelligent manufacturing business**

During 1H-2018, due to excellent quality, good reputation and reasonable price of the 3C product robot test production line of the first division, favorable comments and large number of orders were received. However, the fierce market competition in the industry reduced the selling price of the products. In addition, the increase in material price and labor costs further reduced the gross profit of the segment. The revenue of this segment increased to HK$90.3 million (2017: HK$44.4 million) and the gross profit margin decreased to 23.8% in 1H-2018 (2017: 34.9%).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

***Liquidity***

As at 30 June 2018, the Group had bank balances and cash of HK$577.3 million (31 December 2017: HK$417.1 million), of which 53.1% was held in Renminbi, 46.7% was held in US dollars and the remaining balance was held in Hong Kong dollars. As at 30 June 2018, the Group also had pledged bank deposits of HK$40.5 million (31 December 2017: HK$30.1 million) in Renminbi for the purpose of the Group's borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain of its assets (including 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$61.4 million as at 30 June 2018 (31 December 2017: HK$84.1 million), all of which was denominated in Renminbi. All of the bank borrowings were 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 2018 Days** | 31 December 2017 Days |
|---|---|---|
| Inventory turnover period | **111** | 105 |
| Trade and notes receivables turnover period | **49** | 37 |
| Trade and notes payables turnover period | **69** | 48 |

In the second quarter of 2018, the purchase volume of the Group was large to fulfill the sales orders of third quarter of 2018. The inventory turnover period of 1H-2018 thus increased significantly as compared to that of year 2017.

As the trade receivables for IOT system and O2O business and intelligent manufacturing business, which have longer credit period than other Core Business, increased in 1H-2018, the overall trade and notes receivables turnover period increased for 1H-2018 as compared to that of year 2017.

The trade and note payables turnover period increased for 1H-2018 as compared to that of year 2017 due to the average balance of trade and notes payables increased for 1H-2018.

As at 30 June 2018, the current ratio, calculated as current assets over current liabilities, was 2.5 times (31 December 2017: 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 mainly held under fixed and savings deposits in reputable banks to earn interest income.

# MANAGEMENT DISCUSSION AND ANALYSIS

Certain sales and purchases of inventories of the Group are denominated in US dollars. Furthermore, certain trade receivables, trade payables and bank balances are denominated in US dollars, therefore exposing the Group to the currency risk of US dollars. During 1H-2018, the Group did not use any financial instrument for hedging purpose but it will consider entering into non-deliverable foreign exchange forward contracts to eliminate the foreign exchange exposures in US dollars when necessary.

***Capital structure***

As at 30 June 2018, the Company had 2,559,546,300 ordinary shares of HK$0.10 each in issue.

No shares of the Company has been issued or repurchased during 1H-2018.

## CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2018 and 1H-2017:

| | **1H-2018**<br>**HK$'M** | 1H-2017<br>HK$'M |
|---|---|---|
| Net cash from operating activities | **150.3** | 151.8 |
| Capital expenditure | **(31.1)** | (10.8) |
| Development costs | **(108.3)** | (110.2) |
| Net decrease in bank borrowings | **(22.6)** | (106.8) |
| Net decrease in other liabilities | **(86.1)** | – |
| Net cash inflow from disposal of an associate | **–** | 10.0 |
| Net cash inflow from disposal of subsidiaries | **407.5** | – |
| Net decrease in entrusted loan receivables | **–** | 45.6 |
| Dividend paid | **(143.3)** | – |
| Interest paid | **(2.0)** | (3.0) |
| Others | **6.2** | 3.3 |
| Net increase (decrease) in cash and cash equivalents (including pledged bank deposits) | **170.6** | (20.1) |

## GEARING RATIO

As at 30 June 2018, the total assets of the Group was HK$3,440.2 million (31 December 2017: HK$3,630.4 million) and the bank borrowings was HK$61.4 million (31 December 2017: HK$84.1 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 1.8% (31 December 2017: 2.3%).

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.

## EMPLOYEES

As at 30 June 2018, the Group had approximately 1,900 (31 December 2017: 2,540) 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.

## FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the circular of the Company dated 18 January 2018, the Group intends to use part of the net proceeds from the Disposal in the following manner:

– as to approximately HK$201.5 million for purchase of the land for the Group's operations centre in Dongguan, the PRC and the construction of the operation centre; and

– as to approximately HK$115.1 million for (a) upgrading the production facilities of the Group in Shanghai and the above operations centre and development of an automated intelligent 3D-warehouse; (b) further implementation of the digitizating, networking and intelligent processes by Industry 4.0; and (c) enhancing the competitiveness of the high-end handsets ODM (original design manufacturing) and EMS businesses.

Save as disclosed above, the Group did not have any plans for material investment or capital assets during the 1H-2018.

## 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.

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

Further details of the above mentioned proposed 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.

On 22 September 2017, the Company, Simcom International Holdings Limited ("Simcom International"), 上海移為通信技術股份有限公司 (Queclink Wireless Solutions Co., Ltd.*) ("Queclink Wireless"), Richjoy Talent Limited ("Richjoy"), Shanghai Simcom Electronic Limited ("Simcom Electronic", together with Simcom Wireless as the "Target Companies") and Simcom Wireless entered into a sale and purchase agreement under which Simcom International has conditionally agreed to sell, and Queclink Wireless and Richjoy have conditionally agreed to purchase the equity interest in the Target Companies at the aggregate consideration of RMB528.0 million.

On 7 December 2017, the Company, Simcom International, Queclink Wireless, Richjoy, the Target Companies, Shenyang SIM Simcom Technology Limited and Shanghai SIM Technology Limited entered into a termination agreement for the above mentioned sale and purchase agreement.

Further details of the above mentioned proposed disposal are disclosed in the announcements of the Company dated 22 September 2017, 24 November 2017 and 7 December 2017.

On 21 December 2017, the Company, Simcom International (an indirect wholly-owned subsidiary of the Company), Shenzhen Sunsea (a company listed on the Shenzhen Stock Exchange), Simcom Electronic and Simcom Wireless entered into the sale and purchase agreement ("Sale and Purchase Agreement") under which Simcom International has conditionally agreed to sell, and Shenzhen Sunsea has conditionally agreed to purchase, 100% of the equity interest of Simcom Wireless ("Disposal"). It is expected that approximately 35% of the actual net gain from the disposal will be used for payment of a special interim dividend.

On 13 February 2018, the Shareholders approved the Sale and Purchase Agreement and the transactions contemplated thereunder. Subsequent to 31 December 2017, the Disposal has been completed and the Group is in the process of assessing the relevant financial impact of the Disposal to the Group.

The transactions as contemplated under the Disposal have been completed during 1H-2018.

On 23 May 2018, the Board has resolved to declare a special dividend of HK4 cents per Share, amounting to approximately HK$102.4 million in total, from the net proceeds of the Disposal. It is expected that the Board will declare another special dividend in the aggregate amount of approximately HK$25.5 million after the full consideration of the Disposal is received by the Company.

Further details of the Disposal are disclosed in the announcements of the Company dated 21 December 2017, 13 February 2018, 10 May 2018 and 23 May 2018 and the circular of the Company dated 18 January 2018. Further details of the amount of another special interim dividend and the record date of the entitlements will be announced by the Company after the full consideration of the Disposal is received by the Company.

Save as disclosed above, during the 1H-2018, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

## SIGNIFICANT INVESTMENT

As at 30 June 2018, the available-for-sale investment represented the Group's investment in 2.73% of the shares in Shanghai Guao Electronic Technology Co., Ltd ("Shanghai Guao") ("Investment") and the Investment cost was approximately HK$13.5 million. During 2016, Shanghai Guao became listed on the ChiNext of the Shenzhen Stock Exchange. The fair value, based on the quoted market price, of the Investment at 30 June 2018 is approximately HK$47.9 million (31 December 2017: HK$80.3 million). HK$146,000 dividends was received from Shanghai Guao during the 1H-2018. Shanghai Guao specializes in the research and development, manufacturing, marketing and service of innovative financial equipment. The Group noted the development strategy of Shanghai Guao as stated in its annual report for the year 2017 issued on April 2018, that Shanghai Guao will focus on the new financial products based on its existing production system and technology reserve. Shanghai Guao will continue to develop its technology so as to improve its sales and after-sale service. Shanghai Guao will develop projects in relation to automated cash treatment.

## CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | NOTES | Six months ended 30 June 2018 HK$'000 (unaudited) | 2017 HK$'000 (unaudited) |
|---|---|---|---|
| Revenue | 3 | **1,528,556** | 1,429,022 |
| Cost of sales and services | | **(1,401,903)** | (1,264,547) |
| Gross profit | | **126,653** | 164,475 |
| Other income | 5 | **15,929** | 32,782 |
| Other expenses | 19 | **(90,499)** | – |
| Other gains and losses | 5 | **512,164** | 17,796 |
| Research and development expenses | | **(29,910)** | (39,642) |
| Selling and distribution costs | | **(71,173)** | (63,937) |
| Administrative expenses | | **(62,225)** | (58,672) |
| Share of results of associates | | **(335)** | (811) |
| Finance costs | | **(2,041)** | (2,957) |
| Profit before taxation | | **398,563** | 49,034 |
| Taxation | 6 | **(81,479)** | (17,262) |
| Profit for the period | 7 | **317,084** | 31,772 |
| Profit/(loss) for the period attributable to: | | | |
| Owners of the Company | | **330,047** | 35,685 |
| Non-controlling interests | | **(12,963)** | (3,913) |
| | | **317,084** | 31,772 |
| Earnings per share (HK cents) | 9 | | |
| Basic | | **12.9** | 1.4 |
| Diluted | | **12.9** | 1.4 |

# INTERIM FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | NOTES | Six months ended 30 June 2018 HK$'000 (unaudited) | 2017 HK$'000 (unaudited) |
|---|---|---|---|
| Profit for the period | 7 | **317,084** | 31,772 |
| Other comprehensive expense 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 relating to items that may be reclassified to profit or loss | | **–** | 19,898 |
| Items that will not be subsequently reclassified to profit or loss for the period: | | | |
| Surplus on transfer of land use rights and property, plant and equipment to investment properties at fair value | | **6,757** | – |
| Fair value loss on investment in equity instrument at fair value through other comprehensive income | | **(18,355)** | – |
| Deferred tax relating to items that will not be reclassified to profit or loss | | **2,900** | – |
| Exchange difference arising on translation to presentation currency | | **(6,776)** | 8,111 |
| Other comprehensive expense for the period | | **(15,474)** | (51,584) |
| Total comprehensive income (expense) for the period | | **301,610** | (19,812) |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **316,540** | (18,115) |
| Non-controlling interests | | **(14,930)** | (1,697) |
| | | **301,610** | (19,812) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

| | NOTES | 30 June 2018 HK$'000 (unaudited) | 31 December 2017 HK$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 10 | **391,655** | 384,949 |
| Property, plant and equipment | 10 | **382,372** | 399,258 |
| Land use rights | | **83,662** | 86,793 |
| Intangible assets | 10 | **142,482** | 188,765 |
| Deferred tax assets | 11 | **46,408** | 47,339 |
| Finance lease receivables | | **473** | 705 |
| Interests in associates | | **1,938** | 2,274 |
| Available-for-sale investments | 23 | **–** | 80,253 |
| Equity instruments at fair value through other comprehensive income | 23 | **47,883** | – |
| Consideration receivable | 19 | **1,714** | 1,733 |
| | | **1,098,587** | 1,192,069 |
| Current assets | | | |
| Inventories | 14 | **539,183** | 758,531 |
| Finance lease receivables | | **702** | 2,097 |
| Properties held for sale | | **143,537** | 502,998 |
| Trade and notes receivables | 13A | **303,648** | 344,208 |
| Contract assets | 13B | **228,338** | – |
| Other receivables, deposits and prepayments | | **326,298** | 331,579 |
| Amount due from an associate | 16 | **3,800** | 3,200 |
| Amounts due from non-controlling shareholders of subsidiaries | 16 | **4,496** | 11,633 |
| Consideration receivables | 19 | **129,801** | 723 |
| Financial assets at fair value through profit or loss | 23 | **16,574** | – |
| Entrusted loan receivables | 12 | **27,407** | 36,150 |
| Pledged bank deposits | | **40,528** | 30,125 |
| Bank balances and cash | | **577,326** | 417,092 |
| | | **2,341,638** | 2,438,336 |

| | NOTES | 30 June 2018 HK$'000 (unaudited) | 31 December 2017 HK$'000 (audited) |
|---|---|---|---|
| Current liabilities | | | |
| Trade and notes payables | 15 | **435,968** | 393,750 |
| Contract liabilities | | **234,995** | – |
| Other payables, deposits received and accruals | | **71,239** | 599,012 |
| Other liabilities | | **56,639** | 141,154 |
| Bank borrowings | 17 | **61,388** | 84,104 |
| Tax payable | | **68,445** | 37,992 |
| | | **928,674** | 1,256,012 |
| Net current assets | | **1,412,964** | 1,182,324 |
| Total assets less current liabilities | | **2,511,551** | 2,374,393 |
| Capital and reserves | | | |
| Share capital | 18 | **255,955** | 255,955 |
| Reserves | | **2,033,238** | 1,865,855 |
| Equity attributable to owners of the Company | | **2,289,193** | 2,121,810 |
| Non-controlling interests | | **81,494** | 101,481 |
| Total equity | | **2,370,687** | 2,223,291 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 11 | **91,177** | 99,151 |
| Deferred income | | **49,687** | 51,951 |
| | | **140,864** | 151,102 |
| | | **2,511,551** | 2,374,393 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | 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 2017 (audited) | 255,790 | 831,363 | 48,039 | 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 | - | - | - | - | - | - | (59,695) | - | 5,895 | - | (53,800) | 2,216 | (51,584) |
| Total comprehensive (expense) income for the period | - | - | - | - | - | - | (59,695) | - | 5,895 | 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 |
| At 31 December 2017 (audited) | 255,955 | 832,066 | 50,084 | 97,104 | 29,746 | 102,827 | 47,534 | 2,282 | 187,950 | 516,262 | 2,121,810 | 101,481 | 2,223,291 |
| Adjustment (note 2) | - | - | - | - | - | - | - | - | - | (4,000) | (4,000) | - | (4,000) |
| At 1 January 2018 (restated) | 255,955 | 832,066 | 50,084 | 97,104 | 29,746 | 102,827 | 47,534 | 2,282 | 187,950 | 512,262 | 2,117,810 | 101,481 | 2,219,291 |
| Profit/(loss) for the period | - | - | - | - | - | - | - | - | - | 330,047 | 330,047 | (12,963) | 317,084 |
| Other comprehensive income (expense) for the period | - | - | - | - | - | 5,068 | (13,766) | - | (4,809) | - | (13,507) | (1,967) | (15,474) |
| Total comprehensive income (expense) for the period | - | - | - | - | - | 5,068 | (13,766) | - | (4,809) | 330,047 | 316,540 | (14,930) | 301,610 |
| Share options lapsed | - | - | - | - | (2,978) | - | - | - | - | 2,978 | - | - | - |
| Acquisition of additional interests in subsidiaries | - | - | - | (1,822) | - | - | - | - | - | - | (1,822) | (6,148) | (7,970) |
| Disposal of subsidiaries | - | - | - | - | - | - | - | - | (10,975) | 10,975 | - | (97) | (97) |
| Disposal of partial interests in a subsidiary | - | - | - | - | - | - | - | - | - | - | - | 1,188 | 1,188 |
| Transfer to statutory surplus reserve | - | - | 5,876 | - | - | - | - | - | - | (5,876) | - | - | - |
| Dividends paid | - | - | - | - | - | - | - | - | - | (143,335) | (143,335) | - | (143,335) |
| At 30 June 2018 (unaudited) | 255,955 | 832,066 | 55,960 | 95,282 | 26,768 | 107,895 | 33,768 | 2,282 | 172,166 | 707,051 | 2,289,193 | 81,494 | 2,370,687 |

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").

Movements of other reserve during the periods ended 30 June 2018 and 30 June 2017 were arisen from the effect due to changes in the Group's ownership interests in existing subsidiaries without losing control.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **OPERATING ACTIVITIES** | | |
| Operating cash flows before movements in working capital | **84,922** | 145,023 |
| Decrease (increase) in properties under development for sales and properties held for sales | **335,584** | (1,651) |
| Increase in contract liabilities | **(243,808)** | – |
| Other movements in working capitals | **34,869** | 7,213 |
| Cash generated from operations | **211,567** | 150,585 |
| Interest received | **2,395** | 5,765 |
| Tax paid | **(63,701)** | (4,516) |
| **NET CASH FROM OPERATING ACTIVITIES** | **150,261** | 151,834 |
| **INVESTING ACTIVITIES** | | |
| Purchase of financial assets at fair value through profit or loss | **(16,946)** | – |
| Purchase of equity instruments at fair value through other comprehensive income | **(2,473)** | – |
| Proceeds from disposal of equity instruments at fair value through other comprehensive income | **16,624** | – |
| Purchase of property, plant and equipment | **(31,052)** | (10,809) |
| Proceeds on disposal of property, plant and equipment | **1,840** | 724 |
| Expenditure paid for intangible assets | **(108,318)** | (110,259) |
| Consideration received from disposal of an associate | **–** | 10,059 |
| Net cash inflow (outflow) from disposal of subsidiaries | **407,536** | (54) |
| Investment in entrusted loan receivables | **–** | (34,230) |
| Receipt of entrusted loan receivables | **–** | 79,870 |
| Placement of pledged bank deposits | **(42,058)** | (29,666) |
| Withdrawal of pledged bank deposits | **30,925** | 67,319 |
| Dividend received | **146** | 171 |
| Advance to an associate | **(600)** | – |
| **NET CASH FROM (USED) IN INVESTING ACTIVITIES** | **255,624** | (26,875) |

# INTERIM FINANCIAL STATEMENTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **FINANCING ACTIVITIES** | | |
| New bank borrowings raised | **–** | 117,017 |
| Repayments of bank borrowings | **(22,632)** | (223,848) |
| Decrease in other liabilities | **(86,125)** | – |
| Interest paid | **(2,041)** | (2,957) |
| Dividend paid | **(143,335)** | – |
| Proceeds from disposal of partial interest in a subsidiary that does not result in losing control | **1,188** | – |
| Net cash used in acquisitions of additional interests in subsidiaries | **(833)** | (116) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(253,778)** | (109,904) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **152,107** | 15,055 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | **417,092** | 249,132 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **8,127** | 1,004 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH** | **577,326** | 265,191 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 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 and internet of things ("IOT") terminals business, carrying out wireless communication modules business, IOT system and online-to-offline ("O2O") business, intelligent manufacturing business, property development and property management 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 of Hong Kong Limited ("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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

**Application of new and amendments to IFRSs**

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRSs 2014-2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

**2.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers**

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Sale of handsets and IOT terminals
- Own-branded products manufacturing
- Electronic manufacturing services
- Sale of goods to vending machine customers and franchisee

- Equipment finance lease service
- Procurement agency service
- Sale of intelligent manufacturing products
- Sale of properties
- Property rental

The revenue sources of equipment finance lease service and property rental are not within the scope of IFRS 15.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and the related interpretations.

*2.1.1 Key changes in accounting policies resulting from application of IFRS 15*

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met as in contracts for electronic manufacturing services:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

*Input method*

The progress towards complete satisfaction of a performance obligation in electronic manufacturing services contracts is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

*Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer, as in contracts for sale of handsets and IOT terminals, own-branded products manufacturing, sale of goods to vending machine customers and franchisee, sale of intelligent manufacturing products and sale of properties.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, as in contracts for electronic manufacturing services and procurement agency services, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

*2.1.2 Summary of effects arising from initial application of IFRS 15*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Notes | Carrying amounts previously reported at 31 December 2017 HK$'000 | Reclassi-fication HK$'000 | Carrying amounts under IFRS 15 at 1 January 2018 HK$'000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Trade and notes receivables | (a) | 344,208 | (19,681) | 324,527 |
| Contract assets | (a) | – | 19,681 | 19,681 |
| **Current liabilities** | | | | |
| Contract liabilities | (b) | – | 487,668 | 487,668 |
| Other payables, deposits received and accruals | (b) | 599,012 | (487,668) | 111,344 |

(a) At the date of initial application, unbilled revenue of HK$19,681,000 arising from the sale of intelligent manufacturing products contracts are conditional on the completion of retention period as stipulated in the contracts, and hence such balance was reclassified from trade and notes receivables to contract assets.

(b) As at 1 January 2018, deposits received from customers for sales of goods and properties of HK$487,668,000 in respect of the sale of handsets and IOT terminals, sale of own-branded wireless products, sale of goods to vending machine customers and franchisee and sale of properties contracts previously included in other payables, deposits received and accruals were reclassified to contract liabilities for HK$487,668,000.

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

| | Notes | As reported | Adjustments | Amounts without application of IFRS 15 |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| **Current assets** | | | | |
| Trade and notes receivables | (a) | 303,648 | 228,338 | 531,986 |
| Contract assets | (a) | 228,338 | (228,338) | – |
| **Current liabilities** | | | | |
| Contract liabilities | (b) | 234,995 | (234,995) | – |
| Other payables, deposits received and accruals | (b) | 71,239 | 234,995 | 306,234 |

(a) Without application of IFRS 15, i) retention receivables from the sale of intelligent manufacturing products of HK$29,479,000 would have been classified as trade and notes receivables instead of contract assets as the sale of intelligent manufacturing products has completed in the current interim period; and ii) the purchase of raw materials of HK$198,859,000 on behalf of customers in electronic manufacturing services would have been classified as trade and notes receivables instead of contract assets as risk and reward on the underlying raw materials have been passed to the customer before physical delivery of relevant finished goods.

(b) Without application of IFRS 15, deposits received from customers for the sale of goods and properties would have been included in other payables, deposits received and accruals.

**2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments**

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

*2.2.1 Key changes in accounting policies resulting from application of IFRS 9*

*Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income ("OCI") and accumulated in the asset revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the asset revaluation reserve.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

*Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and notes receivables, other receivables, consideration receivables, entrusted loan receivables, finance lease receivables, contract assets, amounts due form an associate and non-controlling shareholders of subsidiaries, pledged bank deposits and bank balances and cash. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and notes receivables, contract assets and finance lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and entrusted loan receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, contract assets and finance lease receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

*Classification and measurement of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

*2.2.2 Summary of effects arising from initial application of IFRS 9*

The table below illustrates the classification and measurement (including impairment) of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | Note | Available-for-sale investments HK$'000 | Equity instruments at FVTOCI HK$'000 | Amortised cost (previously classified as loans and receivables) HK$'000 | Financial liabilities at amortised cost HK$'000 | Contract assets HK$'000 | Deferred tax liabilities HK$'000 | Assets revaluation reserve HK$'000 | Accumulated profits HK$'000 | Non-controlling interests HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Closing balance at 31 December 2017 – IAS 39 | | 80,253 | - | 879,008 | 720,444 | - | 51,812 | 47,534 | 516,262 | 101,481 |
| Effect arising from initial application of IFRS 15 | | - | - | (19,681) | - | 19,681 | - | - | - | - |
| Effect arising from initial application of IFRS 9: | | | | | | | | | | |
| Reclassification from available-for-sale investments | (a) | (80,253) | 80,253 | - | - | - | - | - | - | - |
| Remeasurement of impairment under ECL model | (b) | - | - | (4,000) | - | - | - | - | (4,000) | - |
| Opening balance at 1 January 2018 | | - | 80,253 | 855,327 | 720,444 | 19,681 | 51,812 | 47,534 | 512,262 | 101,481 |

(a) *Available-for-sale investment*

*From AFS equity investments to FVTOCI*

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, HK$80,253,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gain of HK$47,534,000 relating to those investments previously carried at fair value continued to accumulate in asset revaluation reserve.

(b) *Impairment under ECL model*

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets, trade and notes receivables and finance lease receivables. To measure the ECL, contract assets and trade and notes receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade and notes receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$4,000,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective asset.

All loss allowances for financial assets including contract assets, trade and note receivables and other financial assets at amortised cost as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

| | Opening loss allowance of contract assets HK$'000 | Opening loss allowance of trade and notes receivables HK$'000 | Opening loss allowance of other financial assets at amortised cost HK$'000 |
|---|---|---|---|
| At 31 December 2017 | | | |
| – IAS 39 | N/A | 22,455 | – |
| Amounts remeasured through opening accumulated profits | – | 4,000 | – |
| At 1 January 2018 | – | 26,455 | – |

## 2.3 Impacts and changes in accounting policies of application on Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existed at that date, there is no impact to the classification at 1 January 2018.

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

## 3. REVENUE

### Disaggregation of revenue

**For the six months ended 30 June 2018 (unaudited)**

| | Handsets and IOT terminals business HK$'000 | Wireless communication modules business HK$'000 | IOT system and O2O business HK$'000 | Intelligent manufacturing business HK$'000 | Property development HK$'000 | Property management HK$'000 |
|---|---|---|---|---|---|---|
| **Types of goods or services** | | | | | | |
| Sale of handsets and IOT Terminals | 431,349 | – | – | – | – | – |
| Own-branded products manufacturing | – | 154,112 | – | – | – | – |
| Electronic manufacturing services | – | 346,877 | – | – | – | – |
| Sale of goods to vending machine customers and franchisee | – | – | 140,494 | – | – | – |
| Equipment finance lease service | – | – | 154 | – | – | – |
| Procurement agency service | – | – | 15,359 | – | – | – |
| Sale of intelligent manufacturing products | – | – | – | 90,254 | – | – |
| Sale of properties | – | – | – | – | 330,938 | – |
| Property rental | – | – | – | – | – | 19,019 |
| | 431,349 | 500,989 | 156,007 | 90,254 | 330,938 | 19,019 |
| **Revenue from contracts with customers and timing of revenue recognition** | | | | | | |
| A point in time | 431,349 | 489,259 | 155,853 | 90,254 | 330,938 | N/A |
| Over time | – | 11,730 | – | – | – | N/A |
| Total | 431,349 | 500,989 | 155,853 | 90,254 | 330,938 | N/A |

### Geographical markets

The Group's revenue are substantially generated from the PRC, the country of domicile from which the group entities derive revenue. No further analysis is presented.

## 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 2018, the Group was organised into six (2017: five) reportable and operating segments, being handsets and IOT terminals business, wireless communication modules business, IOT system and O2O business, intelligent manufacturing business, property development and property management. (2017: handsets and IOT terminals business, wireless communication modules business, IOT system and O2O business, intelligent manufacturing business and property development).

During the current interim period, property management has been regarded as a reportable segment of the Group. Property management is principally leasing various investment properties of the Group, including office premises and factories, to customers in the PRC under operating leases.

As a result of the changes to reportable segments and segment presentation, the segment revenue and result for the six months ended 30 June 2017 and segment assets and liabilities as at 31 December 2017 have been re-presented to conform to the revised presentation. Segment profit of the property management segment for the six months ended 30 June 2017 amounting to HK$11,577,000, including segment revenue amounting to HK$11,956,000 and changes in fair value of investment properties amounting to HK$4,051,000 were reclassified from "other income and other gains and losses"; and segment expenses amounting to HK$4,430,000 in aggregate were reclassified from other reportable segments; segment assets and liabilities under the property management segment as at 31 December 2017 are reclassified from "unallocated assets" and "unallocated liabilities", respectively, under the revised segment reporting.

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

**For the six months ended 30 June 2018 (unaudited)**

| | Handsets and IOT terminals business HK$'000 | Wireless communication modules business HK$'000 | IOT system and O2O business HK$'000 *(Note)* | Intelligent manufacturing business HK$'000 | Property development HK$'000 | Property management HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| External sales | 431,349 | 500,989 | 156,007 | 90,254 | 330,938 | 19,019 | 1,528,556 |
| Segment profit (loss) | 9,478 | 429,635 | (4,862) | 1,245 | (14,108) | 15,109 | 436,497 |
| Other income and other gains and losses | | | | | | | (20,245) |
| Share of results of associates | | | | | | | (335) |
| Corporate expenses | | | | | | | (15,313) |
| Finance costs | | | | | | | (2,041) |
| Profit before taxation | | | | | | | 398,563 |

For the six months ended 30 June 2017 (unaudited) (re-presented)

| | Handsets and IOT terminals business HK$'000 | Wireless communication modules business HK$'000 | IOT system and O2O business HK$'000 (Note) | Intelligent manufacturing business HK$'000 | Property development HK$'000 | Property management HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| External sales | 516,217 | 655,009 | 145,938 | 44,423 | 67,435 | 11,956 | 1,440,978 |
| Segment profit (loss) | 13,373 | 26,911 | (8,243) | 2,056 | 969 | 11,577 | 46,643 |
| Other income and other gains and losses | | | | | | | 21,810 |
| Share of results of associates | | | | | | | (811) |
| Corporate expenses | | | | | | | (15,651) |
| Finance costs | | | | | | | (2,957) |
| Profit before taxation | | | | | | | 49,034 |

Note: The IOT system and O2O 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.

Segment result represents the financial result by each segment without allocation of interest income, unallocated foreign exchange (loss) gain, loss on disposal of property, plant and equipment, loss on disposal of a subsidiary, net gain on financial assets at fair value through profit or loss, share of results of associates, certain other income, corporate expenses, finance costs and taxation (six months ended 30 June 2017: without allocation of interest income, unallocated foreign exchange gain, loss on disposal of property, plant and equipment, gain on disposal of an associate, loss on disposal of subsidiaries, fair value change on derivative financial instruments, share of results of associates, certain other income, 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 2018 HK$'000 (unaudited) | 31 December 2017 HK$'000 (audited) (re-presented) |
|---|---|---|
| **Segment assets** | | |
| Handsets and IOT terminals business | **955,865** | 891,788 |
| Wireless communication modules business | **406,401** | 653,297 |
| IOT system and O2O business | **201,154** | 153,196 |
| Intelligent manufacturing business | **278,112** | 214,891 |
| Property development | **186,392** | 554,350 |
| Property management | **391,655** | 384,949 |
| Total segment assets | **2,419,579** | 2,852,471 |
| Unallocated assets | **1,020,646** | 777,934 |
| Total assets | **3,440,225** | 3,630,405 |
| **Segment liabilities** | | |
| Handsets and IOT terminals business | **431,102** | 506,278 |
| Wireless communication modules business | **84,725** | 174,713 |
| IOT system and O2O business | **55,823** | 15,699 |
| Intelligent manufacturing business | **101,473** | 84,328 |
| Property development | **103,343** | 397,630 |
| Property management | **4,412** | 4,362 |
| Total segment liabilities | **780,878** | 1,183,010 |
| Unallocated liabilities | **288,660** | 224,104 |
| Total liabilities | **1,069,538** | 1,407,114 |

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than certain property, plant and equipment, certain land use rights, interests in associates, entrusted loan receivables, consideration receivables, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, bank balances and cash, equity instruments at fair value through other comprehensive income, financial assets at fair value through profit or loss, deferred tax assets, certain other receivables, deposits and prepayments and amount due from an associate (31 December 2017: other than 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, and amount due from an associate). 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, accruals, tax payable, other liabilities, bank borrowings and deferred tax liabilities (31 December 2017: other than certain other payables, accruals, tax payable, other liabilities, bank borrowings and deferred tax liabilities).

## 5. OTHER INCOME/OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **Other income** | | |
| Refund of Value Added Tax ("VAT") *(Note i)* | **3,015** | 5,876 |
| Government grants *(Note ii)* | **8,526** | 8,850 |
| Dividend income from available-for-sale investment | **–** | 171 |
| Dividend income from equity investments at fair value through other comprehensive income | **146** | – |
| Interest income earned on bank balances | **2,271** | 1,082 |
| Interest income earned on entrusted loan receivables | **907** | 4,683 |
| Rental income (Less: outgoings of Nil (six months ended 30 June 2017: HK$1,103,000)) | **–** | 11,956 |
| Others | **1,064** | 164 |
| | **15,929** | 32,782 |
| **Other gains and losses** | | |
| Loss on disposal of property, plant and equipment | **(2,469)** | (256) |
| Net foreign exchange (loss) gain | **(5,458)** | 12,865 |
| Changes in fair values of investment properties | **3,154** | 4,051 |
| Gain on disposal of an associate | **–** | 8,736 |
| Net gain/(loss) on disposal of subsidiaries *(Note 19)* | **518,223** | (8) |
| Fair value change on derivative financial instruments | **–** | (7,588) |
| Net allowance for bad and doubtful debts | **(11,929)** | (4) |
| Net loss on financial assets at fair value through profit or loss | **(372)** | – |
| Others | **11,015** | – |
| | **512,164** | 17,796 |

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 2018, the amount includes HK$7,816,000 (six months ended 30 June 2017: HK$3,203,000) unconditional government grants received during the period which was granted to encourage for the Group's research and developments activities in the PRC.

As at 30 June 2018, an amount of HK$54,162,000 (31 December 2017: HK$55,445,000) remained to be amortised and is included in other payables (for current portion) and deferred income (for non-current portion).

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Taxation comprises: | | |
| PRC Enterprise Income Tax ("EIT") | **(83,206)** | (9,698) |
| PRC Land Appreciation Tax ("LAT") | **1,557** | (1,320) |
| Overprovisions on PRC EIT in previous years | **553** | 692 |
| Deferred tax charge *(Note 11)* | **(383)** | (6,936) |
| Taxation for the period | **(81,479)** | (17,262) |

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 are classified as New and High Technology Enterprise and is entitled to adopt a tax rate of 15%. The relevant annual tax rate used for EIT for the Group's subsidiaries ranged from 15% to 25% (six months ended 30 June 2017: 15% to 25%).

In respect of capital gain from the Disposal (as defined in note 19), capital gain for EIT purpose is the difference between the consideration received and receivable from the equity transfer and the net value of equity of the transferred entities. The tax rate used for EIT on capital gain is 10%.

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 2017: 30% to 60%) of the appreciation value, with certain allowable deductions.

## 7. PROFIT FOR THE PERIOD

| | Six months ended 30 June 2018 HK$'000 (unaudited) | 2017 HK$'000 (unaudited) |
|---|---|---|
| Profit for the period is arrived at after charging: | | |
| Amortisation of intangible assets (included in cost of sales) | **81,716** | 88,651 |
| Less: Amount capitalised in development costs | **(3,842)** | (455) |
| Less: Amount capitalised in inventories | **(77,874)** | (88,196) |
| | **–** | – |
| Amortisation of land use rights | **1,639** | 1,524 |
| Depreciation of property, plant and equipment | **32,722** | 29,983 |
| Less: Amount capitalised in development costs | **(1,424)** | (1,610) |
| Less: Amount capitalised in inventories | **(14,635)** | (15,678) |
| | **16,663** | 12,695 |
| Staff costs including directors' emoluments | **137,030** | 137,314 |
| Share-based payments | **–** | 1,282 |
| Less: Amount capitalised in development costs | **(38,373)** | (80,461) |
| Less: Amount capitalised in inventories | **(7,859)** | (8,778) |
| | **90,798** | 49,357 |
| Redundancy costs | **4,090** | – |
| Costs of inventories recognised as an expense (included in cost of sales and services) | **1,050,102** | 1,205,543 |
| Costs of properties sold (included in cost of sales and services) | **344,600** | 59,004 |

## 8. DIVIDENDS

During the current interim period, (i) a final dividend of HK1.6 cents per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: Nil); and (ii) a special dividend of HK4 cents per share were declared and paid to the owners of the Company. The aggregate amount of the final and special dividends declared and paid in the interim period amounted to HK$143,335,000 (six months ended 30 June 2017: Nil).

Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 | |
|---|---|---|
| | **2018** | 2017 |
| | **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) | **330,047** | 35,685 |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,559,546** | 2,557,897 |
| Effect of dilutive potential ordinary shares – share options | **1,138** | – |
| Weighted average number of ordinary shares for the propose of diluted earnings per share | **2,560,684** | 2,557,897 |

For the six months ended 30 June 2018, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options because the exercise prices of those share options were higher than the average market price of the shares of the Company for the period.

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 2018 and 31 December 2017 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.

During the current interim period, the Group has transferred certain buildings and land use rights with aggregate carrying amount of HK$1,074,000 to investment properties because its use has changed as evidenced by the end of owner-occupation. The difference between the carrying amounts and the fair value of the relevant properties at the date of transfer amounts to HK$6,757,000 and is recognised in other comprehensive income.

The fair value of investment properties as at 30 June 2018 is HK$391,655,000 (31 December 2017: HK$384,949,000) and a fair value gain of HK$3,154,000 (six months ended 30 June 2017: HK$4,051,000) have been recognised directly in profit or loss for the six months ended 30 June 2018.

**Property, plant and equipment**

During the current interim period, additions to the Group's property, plant and equipment amounted to HK$31,052,000 (six months ended 30 June 2017: HK$10,809,000).

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK$4,309,000 (six months ended 30 June 2017: HK$980,000) for cash proceeds of HK$1,840,000 (six months ended 30 June 2017: HK$724,000), resulting in a loss on disposal of HK$2,469,000 (six months ended 30 June 2017: HK$256,000).

**Intangible assets**

During the current interim period, additions to the Group's intangible assets amounted to HK$108,318,000 (six months ended 30 June 2017: HK$113,603,000) including addition to development costs of HK$81,378,000 (six months ended 30 June 2017: HK$112,038,000) for development projects on the products.

## 11. 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/equity instruments at fair value through other comprehensive income HK$'000 | Development cost capitalised HK$'000 | Write-down of inventories and trade receivables HK$'000 | Impairment of property, plant and equipment HK$'000 | Revaluation of investment properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2017 (audited) | (15,552) | (19,981) | 29,667 | 14,369 | (60,315) | (51,812) |
| Exchange differences | (293) | (2,992) | 3,162 | (155) | 681 | 403 |
| (Charge) credit to profit or loss *(Note 6)* | - | (619) | 1,025 | - | (789) | (383) |
| Credit (charge) to other comprehensive income | 4,589 | - | - | - | (1,689) | 2,900 |
| Disposal of subsidiaries | - | 5,783 | (1,660) | - | - | 4,123 |
| At 30 June 2018 (unaudited) | (11,256) | (17,809) | 32,194 | 14,214 | (62,112) | (44,769) |

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

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Deferred tax assets | **46,408** | 47,339 |
| Deferred tax liabilities | **(91,177)** | (99,151) |
| | **(44,769)** | (51,812) |

## 12. ENTRUSTED LOAN RECEIVABLE

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Carrying amount receivable based on maturity set out in the loan agreement | | |
| Within one year | **35,760** | 36,150 |
| Less: | | |
| Allowance | **(8,353)** | – |
| | **27,407** | 36,150 |

As at 30 June 2018 and 31 December 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$35,760,000 (31 December 2017: HK$36,150,000)) to a specific corporate borrower at an interest rate of 10% per annum. The entrusted loan receivable is guaranteed. Bank of Communications acted as the trustee of this entrusted loan. Trustee fee of 0.1% per month is charged. This entrusted loan has matured in March 2018.

For the six months ended 30 June 2018, interest income generated from entrusted loans receivable amounted to HK$907,000 (six months ended 30 June 2017: HK$4,683,000) and was recognised as other income.

As at 30 June 2018, the entrusted loan receivable was past due. Allowance on bad and doubtful debt of HK$8,353,000 was recognised on the entrusted loan receivable and HK$3,576,000 was recognised on interest receivable in current interim period.

The Group's entrusted loan receivable is denominated in RMB, which is the functional currency of the group company.

## 13A. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods and services relating to handsets and IOT terminals business, wireless communication modules business, IOT system and 020 business and intelligent manufacturing business 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 2018 HK$'000 (unaudited) | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Trade receivables | | |
| 0-30 days | **164,780** | 181,821 |
| 31-60 days | **19,327** | 55,644 |
| 61-90 days | **22,467** | 25,079 |
| 91-180 days | **33,880** | 14,633 |
| Over 180 days | **45,510** | 47,859 |
| | **285,964** | 325,036 |
| Less: Accumulated allowances | **(26,213)** | (22,455) |
| | **259,751** | 302,581 |
| Notes receivables *(Note)* | | |
| 0-30 days | **13,073** | 35,172 |
| 61-90 days | **9,453** | 1,514 |
| 91-180 days | **21,133** | 4,941 |
| Over 180 days | **238** | – |
| | **43,897** | 41,627 |
| Trade and notes receivables | **303,648** | 344,208 |

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

## 13B. CONTRACT ASSETS

| | 30 June 2018 HK$'000 (unaudited) |
|---|---|
| Current: | |
| Sale of intelligent manufacturing products | **29,479** |
| Electronic manufacturing services | **198,859** |
| | **228,338** |

The contract assets primarily related to the Group's right to consideration for work completed and not billed because the rights are conditioned on i) the completion of retention period at the reporting date on the sale of intelligent manufacturing products; and ii) the delivery of finished goods at the reporting date on the electronic manufacturing services. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers contract assets to trade receivables within 12 months.

## 14. INVENTORIES

| | 30 June 2018 HK$'000 (unaudited) | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Raw materials | **339,804** | 518,252 |
| Work in progress | **129,150** | 108,453 |
| Finished goods | **70,229** | 131,826 |
| | **539,183** | 758,531 |

## 15. TRADE AND NOTES PAYABLES

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

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 2018 HK$'000 (unaudited) | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| 0-30 days | **356,961** | 279,846 |
| 31-60 days | **18,650** | 9,114 |
| 61-90 days | **3,515** | 2,076 |
| Over 90 days | **41,360** | 63,551 |
| | **420,486** | 354,587 |
| Note payables | | |
| 0-30 days | **5,956** | 39,163 |
| 31-60 days | **3,570** | – |
| 61-90 days | **5,956** | – |
| | **15,482** | 39,163 |
| Trade and notes payables | **435,968** | 393,750 |

## 16. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES AND AN ASSOCIATE

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

## 17. BANK BORROWINGS

During the current period, the Group did not obtain any new bank borrowings (six months ended 30 June 2017: HK$117,017,000). The bank borrowings carry variable interest at Loan Prime Rate ("LPR") plus a spread ranging from 4.4% to 5.8% per annum (six months ended 30 June 2017: London Interbank Offered Rate or LPR plus a spread ranged from 1.8% to 5.6% 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.

## 18. SHARE CAPITAL

| | Number of shares '000 | Share capital HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.1 each | | |
| Authorised: | | |
| At 1 January 2018 and 30 June 2018 | 3,000,000 | 300,000 |
| Issued: | | |
| At 1 January 2018 and 30 June 2018 | 2,559,546 | 255,955 |

## 19. DISPOSAL OF SUBSIDIARIES

(a) 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 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 (the "Dingxi Disposal"). The consideration was to be satisfied by cash, of which (i) the first instalment of RMB1,200,000 to be settled at the date of the completion of the Dingxi Disposal; (ii) the second instalment of RMB600,000 to be settled on the 90th day of the date of the completion of the Dingxi Disposal; and (iii) the final instalment of RMB2,200,000 to be settled at the third anniversary date of the date of completion of the Dingxi 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 Dingxi 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 2018, the unsettled consideration of RMB2,038,000 (equivalent to approximately HK$2,429,000,) (31 December 2017: RMB2,038,000 equivalent to approximately HK$2,456,000) was recorded as consideration receivable in the condensed consolidated statement of financial position.

(b) On 21 December 2017, the Group entered into a sale and purchase agreement with an independent third party under which the Group has conditionally agreed to dispose of two wholly-owned subsidiaries, namely Shanghai Simcom Electronic Limited and Simcom Wireless (collectively referred to as the "Target Companies") in relation to wireless communication modules business at a total consideration of approximately RMB518,000,000 (equivalent to approximately HK$644,664,000) (the "Disposal"). The Disposal was completed in the current interim period in which the Group lost controls in the Target Companies.

| | HK$'000 |
|---|---|
| **Considerations** | |
| Cash received | 515,578 |
| Consideration receivable (note) | 129,086 |
| | 644,664 |

Note: The consideration receivable will be received after 270 days from the completion of the Disposal.

| | HK$'000 |
|---|---|
| **Gain on disposal of subsidiaries** | |
| Considerations | 644,664 |
| Net assets of the Target Companies disposal of | (126,171) |
| | 518,493 |
| **Net cash inflow arising on disposal:** | |
| Cash received | 515,578 |
| Less: Bank balances and cash disposed of | (45,742) |
| Deposit received in prior year | (62,419) |
| | 407,417 |

During the current interim period, the Group has incurred professional fees of approximately HK$2,927,000, additional staff bonus of approximately HK$12,460,000, redundancy cost of approximately HK$4,090,000 and inventories write off of approximately HK$71,022,000, which are included in other expenses. EIT on capital gain from the Disposal was approximately HK$64,395,000. In the opinion of the directors, these expenses are in relation to the Disposal.

(c) On 28 January 2018, the Group entered into a sale and purchase agreement with an independent third party under which the Group has disposed of a subsidiary, 杭州卡沃自動化科技有限公司 Hangzhou Kawo Automation Technology Co., Limited at a consideration of RMB100,000 (equivalent to approximately HK$119,000) and resulted in a loss on disposal of a subsidiary of approximately HK$270,000 in the current interim period.

## 20. 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 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Within one year | **7,778** | 6,697 |
| In the second to fifth year inclusive | **9,027** | 6,364 |
| | **16,805** | 13,061 |

### 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 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Within one year | **28,534** | 25,241 |
| In the second to fifth year inclusive | **28,478** | 18,591 |
| After five years | **45** | 72 |
| | **57,057** | 43,904 |

## 21. COMMITMENTS

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Expenditure in respect of investment in an associate contracted for but not provided in the condensed consolidated financial statements | **4,768** | 4,820 |

## 22. RELATED PARTY TRANSACTIONS

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Short term benefits | **2,377** | 2,859 |
| Post-employment benefits | **104** | 143 |
| | **2,481** | 3,002 |

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets 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
- 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 30.6.2018 HK$'000 (unaudited) | Fair value as at 31.12.2017 HK$'000 (audited) | Fair value hierarchy | Valuation techniques and key input(s) |
|---|---|---|---|---|
| Financial assets: | | | | |
| Available-for-sale investments | **–** | 80,253 | Level 1 | Quoted bid prices in an active market. |
| Equity instruments at fair value through other comprehensive income | **47,883** | – | Level 1 | Quoted bid prices in an active market. |
| Financial assets at fair value through profit or loss | **16,574** | – | Level 1 | Quoted bid prices in an active market. |

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.

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

At 30 June 2018, 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 (CAP 571, Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section352 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 | 47.24% |
| | Personal interest | 3,098,000 | | 3,098,000 | 0.12% |
| | Total | | | 1,212,182,000 | 47.36% |
| Ms Yeung Man Ying | Corporate interest (note 2) | 734,857,000 | | 734,857,000 | 28.71% |
| | Personal interest | 3,418,000 | | 3,418,000 | 0.13% |
| | Total | | | 738,275,000 | 28.84% |
| Ms Tang Rongrong | Personal interest | - | 3,510,000 | 3,510,000 | 0.14% |
| Mr Chan Tat Wing Richard | Personal interest | - | 3,510,000 | 3,510,000 | 0.14% |
| Mr Liu Jun | Personal interest | 1,000,000 | 936,000 | 1,936,000 | 0.08% |

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 2,559,546,300 shares of the Company as at 30 June 2018.

As at 30 June 2018, 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.

## SUBSTANTIAL SHAREHOLDERS' OR OTHERS' INTERSETS IN THE SECURITIES OF THE COMPANY

As at 30 June 2018, 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 | 28.71% |
| Intellipower (note 3) | Personal interest | 454,227,000 | 17.75% |

Notes:

1. Calculation of percentage of interest in the Company is based on the issued share capital of 2,559,546,300 shares of the Company as at 30 June 2018.

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"

Save as disclosed above, as at 30 June 2018, there is no other substantial Shareholders or persons 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.

## 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 2018 are as follows:

| Category of participants | Date of grant | Outstanding at 1 January 2018 | Exercised during the period | Lapsed/ expired during the period | Outstanding at 30 June 2018 |
|---|---|---|---|---|---|
| **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 Jun | 3.9.2009 | 936,000 | – | – | 936,000 |
| **Sub-total** | | 10,764,000 | – | (2,808,000) | 7,956,000 |
| **Employees of the Group** | 28.3.2008 | 12,277,395 | – | (12,277,395) | – |
| | 3.9.2009 | 38,360,520 | – | (6,170,580) | 32,189,940 |
| | 19.7.2013 | 15,263,000 | – | (1,063,000) | 14,200,000 |
| **Consultants** | 19.7.2013 | 45,400,000 | – | – | 45,400,000 |
| **Sub-total** | | 111,300,915 | – | (19,510,975) | 91,789,940 |
| **Total** | | 122,064,915 | – | (22,318,975) | 99,745,940 |

Notes:

1. 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.

2. 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.

3. 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.

4. There was no share options granted during the six months ended 30 June 2018.

Save as disclosed above, at no time during 1H-2018 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-2018.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2018, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

## CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with the code provisions laid down in the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for 1H-2018.

Code provision A2.7 of the Corporate Governance Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. As Ms Yeung Man Ying, the chairman of the Board, is also an executive Director, the Company has deviated from this code provision as it is not applicable. Currently, the chairman of the Board may communicate with the non-executive Directors on a one-to-one or group basis periodically to understand their concerns, to discuss pertinent issues and to ensure that there is access to adequate and complete information.

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

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

At the annual general meeting of the Company held on 7 June 2018 ("2018 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 2018 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 2018 AGM to answer questions from Shareholders.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors have confirmed, following specific enquiry by the Company with all Directors, that each of them has fully complied with the required standard as set out in the Model Code during 1H-2018.

## 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-2018. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2018 have been reviewed by our auditor, 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 Jun *(Chief executive officer)*

*Independent non-executive Directors*
Mr LIU Hing Hung
Mr WANG Tianmiao
Mr WU Zhe

## AUDIT COMMITTEE

Mr LIU Hing Hung *(Chairman)*
Mr WANG Tianmiao
Mr WU Zhe

## REMUNERATION COMMITTEE

Mr LIU Hing Hung *(Chairman)*
Mr WANG Tianmiao
Mr WU Zhe
Mr WONG Cho Tung

## COMPANY SECRETARY

Ms CHAN Chi Yin

## 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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## HONG KONG REGISTERED OFFICE

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Hong Kong

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Changning District
Shanghai

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
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Pembroke
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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## STOCK CODE

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