

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



SIM TECHNOLOGY GROUP LIMITED

晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 2000)

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (“**Board**”) of directors (“**Directors**”) of SIM Technology Group Limited (“**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (“**Group**”) for the six months ended 30 June 2021 (“**1H-2021**”) together with the comparative figures for the six months ended 30 June 2020 (“**1H-2020**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	Notes	Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000 (restated)
Continuing operations			
Revenue	3	384,476	297,820
Cost of sales and services		<u>(322,199)</u>	<u>(254,173)</u>
Gross profit		62,277	43,647
Other income	5	20,751	15,517
Impairment losses under expected credit model, net of reversal		(4,000)	1,267
Other gains and losses	5	(11,968)	(19,214)
Research and development expenses		(77,158)	(35,935)
Selling and distribution costs		(13,211)	(11,520)
Administrative expenses		(48,154)	(28,671)
Share of results of associates		10,206	(223)
Finance costs		<u>(2,258)</u>	<u>(1,389)</u>
Loss before taxation		(63,515)	(36,521)
Taxation	6	<u>3,841</u>	<u>2,258</u>
Loss for the period from continuing operations	7	<u>(59,674)</u>	<u>(34,263)</u>

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	HK\$'000	<i>HK\$'000</i> (restated)
Discontinued operations			
Loss for the period from discontinued operations		<u>(9,831)</u>	<u>(8,630)</u>
Loss for the period		<u>(69,505)</u>	<u>(42,893)</u>
Loss for the period attributable to owners of the Company:			
– from continuing operations		(60,465)	(33,647)
– from discontinued operations		<u>(9,245)</u>	<u>(13,343)</u>
		<u>(69,710)</u>	<u>(46,990)</u>
Profit (loss) for the period attributable to non-controlling interests:			
– from continuing operations		791	(616)
– from discontinued operations		<u>(586)</u>	<u>4,713</u>
		<u>205</u>	<u>4,097</u>
Total (loss) profit for the period attributable to:			
Owners of the Company		(69,710)	(46,990)
Non-controlling interests		<u>205</u>	<u>4,097</u>
		<u>(69,505)</u>	<u>(42,893)</u>
Loss per share (HK cents)			
	9		
From continuing and discontinued operations			
Basic		<u>(3.0)</u>	<u>(1.9)</u>
Diluted		<u>(3.0)</u>	<u>(1.9)</u>
From continuing operations			
Basic		<u>(2.6)</u>	<u>(1.4)</u>
Diluted		<u>(2.6)</u>	<u>(1.4)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
		(restated)
Loss for the period	(69,505)	(42,893)
Other comprehensive income (expense) for the period:		
Items that will not be subsequently reclassified to profit or loss for the period:		
Surplus on transfer of rights-of-use assets and property, plant and equipment to investment properties at fair value	14,236	2,495
Fair value gain (loss) on investment in equity instrument at fair value through other comprehensive income	963	(10)
Deferred tax relating to items that will not be reclassified to profit or loss	(3,720)	(621)
Exchange difference arising on translation to presentation currency	2,848	(21,261)
Other comprehensive income (expense) for the period	14,327	(19,397)
Total comprehensive expense for the period	(55,178)	(62,290)
Total comprehensive (expense) income attributable to:		
Owners of the Company	(56,777)	(66,099)
Non-controlling interests	1,599	3,809
	(55,178)	(62,290)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Non-current assets			
Investment properties		739,319	718,572
Property, plant and equipment		229,786	234,451
Right-of-use assets		62,667	70,019
Intangible assets		53,430	66,455
Deferred tax assets		57,033	54,029
Interests in associates		45,015	32,548
Equity instruments at fair value through other comprehensive income ("FVTOCI")		22,378	12,382
Other receivables		6,611	6,600
Consideration receivables		39,244	3,600
		1,255,483	1,198,656
Current assets			
Inventories		231,494	219,575
Properties held for sale		9,499	9,601
Trade and notes receivables	10	136,844	116,138
Other receivables, deposits and prepayments		139,051	240,232
Consideration receivables		768	26,832
Amounts due from associates		25,365	17,161
Amounts due from non-controlling shareholders of subsidiaries		–	4,248
Financial assets at fair value through profit or loss ("FVTPL")		11,559	13,784
Pledged bank deposits		15,866	5,857
Short-term bank deposits		475,524	281,617
Bank balances and cash		383,988	667,935
		1,429,958	1,602,980

		30 June	31 December
		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Current liabilities			
Trade and notes payables	<i>11</i>	134,013	199,504
Contract liabilities		108,509	129,615
Deposits from tenants		4,846	1,348
Other payables, deposits received and accruals		35,471	36,282
Bank borrowings		70,317	36,000
Lease liabilities		7,466	8,764
Tax payable		36,667	36,606
		397,289	448,119
Net current assets		1,032,669	1,154,861
Total assets less current liabilities		2,288,152	2,353,517
Capital and reserves			
Share capital		236,254	236,254
Reserves		1,828,218	1,896,148
Equity attributable to owners of the Company		2,064,472	2,132,402
Non-controlling interests		16,795	15,463
Total equity		2,081,267	2,147,865
Non-current liabilities			
Deposits from tenants		9,847	15,797
Lease liabilities		22,622	25,075
Deferred tax liabilities		129,987	126,465
Deferred income		44,429	38,315
		206,885	205,652
		2,288,152	2,353,517

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 carrying out handsets and internet of things (“IOT”) terminals business, electronic manufacturing services (“EMS”) business and property management in the People’s Republic of China (“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 34 “Interim Financial Reporting” 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.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of new and amendments to IFRS Standards

In the current interim period, the Group has applied the following amendments to IFRSs, for the first time, which are mandatory effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

In addition, the Group has early applied the Amendment to IFRS 16 “Covid-19-Related Rent Concessions beyond 30 June 2021”.

The application of the amendments to IFRSs in the current period has had no material impact on the Group’s performance and financial positions for the current period and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2021 (unaudited)

Continuing operations

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>
Types of goods or services			
Sale of handsets and IOT terminals	308,257	–	–
Electronic manufacturing services	–	45,656	–
Property rental	–	–	30,563
	<hr/>	<hr/>	<hr/>
Total	308,257	45,656	30,563
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Revenue from contracts with customers and timing of revenue recognition

A point in time	308,257	–	N/A
Over time	–	45,656	N/A
	<hr/>	<hr/>	<hr/>
Total	308,257	45,656	N/A
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For the six months ended 30 June 2020 (unaudited) (restated)

Continuing operations

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>
Types of goods or services			
Sale of handsets and IOT terminals	244,933	–	–
Electronic manufacturing services	–	34,525	–
Property rental	–	–	18,362
	<hr/>	<hr/>	<hr/>
Total	244,933	34,525	18,362
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Revenue from contracts with customers and timing of revenue recognition

A point in time	244,933	–	N/A
Over time	–	34,525	N/A
	<hr/>	<hr/>	<hr/>
Total	244,933	34,525	N/A
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 (the "CODM"), being the executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance.

Upon the disposal of 上海雲灝貿易有限公司 (unofficial English name being Shanghai Yunhao Trading Limited) ("Shanghai Yunhao") on 6 April 2021, the Group has discontinued one of its operating segments, namely Internet of things system and online-to-offline business ("IOT system and O2O business").

During the six months ended 30 June 2021, the Group was reorganised into three (year ended 31 December 2020: four) reportable and operating segments, being handsets and IOT terminals business, EMS business, and property management.

The segment information reported does not include any amount for the discontinued operations. Prior year segment disclosures have been represented to conform with the current year's presentation.

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

For the six months ended 30 June 2021 (unaudited)

Continuing operations

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	<u>308,257</u>	<u>45,656</u>	<u>30,563</u>	<u>384,476</u>
Segment (loss) profit	<u>(80,647)</u>	<u>743</u>	<u>10,547</u>	(69,357)
Other income and other gains and losses				8,783
Share of results of associates				10,206
Corporate expenses				(10,889)
Finance costs				<u>(2,258)</u>
Loss before taxation				<u>(63,515)</u>

For the six months ended 30 June 2020 (unaudited) (restated)

Continuing operations

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	<u>244,933</u>	<u>34,525</u>	<u>18,362</u>	<u>297,820</u>
Segment (loss) profit	<u>(22,324)</u>	<u>255</u>	<u>(1,600)</u>	(23,669)
Other income and other gains and losses				(6,367)
Share of results of associates				(223)
Corporate expenses				(4,873)
Finance costs				<u>(1,389)</u>
Loss before taxation				<u>(36,521)</u>

Segment result represents the financial result by each segment without allocation of interest income, dividend income, unallocated foreign exchange loss, loss on disposal of subsidiaries, net gain or loss on financial assets at fair value through profit or loss, write-off of other receivables, 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 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited) (re-presented)
Segment assets		
Handsets and IOT terminals business	645,727	599,594
EMS business	126,992	152,980
Property management	789,509	762,683
	<hr/>	<hr/>
Total reportable segment assets	1,562,228	1,515,257
Assets relating to discontinued operations	–	69,420
Unallocated assets	1,123,213	1,216,959
	<hr/>	<hr/>
Total assets	2,685,441	2,801,636
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Handsets and IOT terminals business	334,434	386,532
EMS business	9,725	23,303
Property management	12,211	7,026
	<hr/>	<hr/>
Total reportable segment liabilities	356,370	416,861
Liabilities relating to discontinued operations	–	8,408
Unallocated liabilities	247,804	228,502
	<hr/>	<hr/>
Total liabilities	604,174	653,771
	<hr/> <hr/>	<hr/> <hr/>

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 right-of-use assets, interests in associates, properties held for sale, consideration receivables, amounts due from non-controlling shareholders of subsidiaries, pledged bank deposits, short-term bank deposits, bank balances and cash, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, deferred tax assets and certain other receivables, deposits and prepayments. 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 lease liabilities, certain other payables, accruals, tax payable, bank borrowings and deferred tax liabilities.

5. OTHER INCOME/OTHER GAINS AND LOSSES

Continuing operations

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited) (restated)
Other income		
Refund of Value Added Tax (“VAT”) (<i>Note (i)</i>)	1,030	1,300
Government grants (<i>Note (ii)</i>)	9,338	5,631
Interest income earned on bank balances	9,926	11,296
Dividend income	101	–
Others	356	(2,710)
	<u>20,751</u>	<u>15,517</u>
Other gains and losses		
Write off of other receivables	–	(1,896)
Write off of amount due from non-controlling shareholders of subsidiaries	–	(4,496)
Gain on disposal of property, plant and equipment	1	126
Net foreign exchange loss	(6,786)	(8,585)
Changes in fair values of investment properties	(4,181)	(8,924)
Loss on disposal of subsidiaries	(2,221)	–
Net loss arising on financial assets measured at fair value through profit or loss	(1,036)	(762)
Others	2,255	5,323
	<u>(11,968)</u>	<u>(19,214)</u>

Notes:

- (i) Shanghai Simcom Limited and Shanghai Pami Intelligent Co., Limited 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 2021, the amount includes HK\$4,490,000 (six months ended 30 June 2020: HK\$4,344,000) unconditional government grants received during the period which was granted to encourage the Group’s research and development activities in the PRC.

As at 30 June 2021, an amount of HK\$45,769,000 (31 December 2020: HK\$44,659,000) 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	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Continuing operations		
Taxation comprises:		
PRC Enterprise Income Tax ("EIT")	(126)	76
PRC Land Appreciation Tax ("LAT")	–	(49)
Deferred tax credit	<u>3,967</u>	<u>2,231</u>
Taxation for the period	<u>3,841</u>	<u>2,258</u>

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

PRC EIT is calculated at the rate prevailing in the relevant districts of the PRC and taking relevant tax incentives into account.

For the six months ended 30 June 2020, the provision of PRC 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% of the appreciation value, with certain allowable deductions.

7. LOSS FOR THE PERIOD

Six months ended 30 June
2021 2020
HK\$'000 *HK\$'000*
(unaudited) (unaudited)
(restated)

Loss for the period from continuing operations has been arrived at after charging (crediting) the following items:

Amortisation of intangible assets (included in cost of sales and services)	33,976	38,333
Less: Amount capitalised in development costs	(135)	(3,354)
Less: Amount capitalised in inventories	(33,841)	(34,979)
	–	–
Depreciation of property, plant and equipment	16,421	20,375
Less: Amount capitalised in development costs	(1,370)	(1,227)
Less: Amount capitalised in inventories	(13,323)	(12,820)
	1,728	6,328
Depreciation of right-of-use assets	5,128	3,861
Staff costs including directors' emoluments	94,351	83,192
Less: Amount capitalised in development costs	(23,166)	(22,855)
Less: Amount capitalised in inventories	(11,313)	(7,633)
	59,872	52,704
Costs of inventories recognised as an expense (included in cost of sales and services)	278,081	221,149
Cost of manufacturing services (included in cost of sales and services)	44,118	33,024

8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the period attributable to the owners of the Company)	<u>(69,710)</u>	<u>(46,990)</u>
	<i>'000</i>	<i>'000</i>

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>2,362,549</u>	<u>2,410,381</u>
--	------------------	------------------

From continuing operations

The calculation of basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited) (restated)
Loss figures are calculated as follow:		
Loss for the period attributable to owners of the Company	(69,710)	(46,990)
Add: Loss for the period from discontinued operations	<u>9,245</u>	<u>13,343</u>
Loss for the purposes of calculating basic and diluted loss per share from continuing operations	<u>(60,465)</u>	<u>(33,647)</u>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic and diluted loss per share from discontinued operations is HK0.4 cents per share (2020: HK0.5 cents per share) based on the loss for the period from discontinued operations of HK\$9,245,000 (2020: HK\$13,343,000) and the denominators detailed above for both basic and diluted loss per share.

For the six months ended 30 June 2021 and 2020, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since the exercise would result in a decrease in loss per share.

10. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods and services relating to handsets and IOT terminals business and EMS business is 0 – 90 days.

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

	As at 30 June 2021 <i>HK\$'000</i> (unaudited)	As at 31 December 2020 <i>HK\$'000</i> (audited)
Trade receivables		
0 – 30 days	72,444	50,795
31– 60 days	20,623	28,060
61– 90 days	13,698	7,444
91– 180 days	7,631	6,427
Over 180 days	<u>29,592</u>	<u>30,744</u>
	143,988	123,470
Less: Accumulated for credit losses	<u>(26,130)</u>	<u>(26,490)</u>
	<u>117,858</u>	<u>96,980</u>
Notes receivables (Note)		
0 – 30 days	3,013	–
31 – 60 days	9,740	7,577
61 – 90 days	874	2,936
91 – 180 days	5,239	8,446
Over 180 days	<u>120</u>	<u>199</u>
	<u>18,986</u>	<u>19,158</u>
Trade and notes receivables	<u><u>136,844</u></u>	<u><u>116,138</u></u>

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

11. TRADE AND NOTES PAYABLES

The aged analysis of the Group's trade and notes payables at the end of the reporting period is presented based on the invoice dates for trade payables or date of issuance for notes payables is as follows:

	As at 30 June 2021 HK\$'000 (unaudited)	As at 31 December 2020 HK\$'000 (audited)
Trade payables		
0 – 30 days	107,165	129,913
31– 60 days	5,468	1,884
61– 90 days	1,074	5,899
Over 90 days	20,306	47,167
	134,013	184,863
Notes payables		
0 – 30 days	–	14,641
Trade and notes payables	134,013	199,504

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to the shareholders of the Company (“Shareholders”) for 1H-2021.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 1H-2021, even though the COVID-19 pandemic had not been effectively contained globally and the China-US relations continued to deteriorate, the Group nonetheless continued to operate its business amidst difficulties and recorded a greater loss. It achieved a revenue of HK\$384.5 million from continuing operations in 1H-2021, an increase of 29.1% against 1H-2020. Gross profit from continuing operations (composed of handset and IOT terminals business, EMS business and property management) was HK\$62.3 million, an increase of 42.7% when compared with 1H-2020. Net loss after tax from continuing operations was HK\$59.7 million, an increase of 74.2% against 1H-2020 (1H-2020: net loss after tax from continuing operations was HK\$34.3 million).

The disposal of the Intelligent Manufacturing Business (“IMB”) & IOT system and O2O business at the end of 2020 and March 2021, respectively resulted in a decrease in the Group’s total revenue (composed of continuing operations and discontinued operation) when compared with the same period last year. The continuous rise in prices of semiconductors and other materials worldwide and the extension of the supply cycle have greatly affected the cost and delivery of the Group’s terminals business. Specific pandemic-related preferential policies introduced by the Chinese government ended in 2021 and the increase in manpower investment by the Group in anticipation of business development led to a surge in labour costs in the first half of the year over the corresponding period last year. At the same time, during the reporting period, the Group achieved remarkable results in expanding its customer base, extending its reach to more operators, intelligent POS and new customers from other segments. Such efforts have formed a solid foundation for the Group’s business development in the second half of the year and beyond to the next year or two.

Handsets and IOT terminals business

The business segment recorded a revenue of HK\$308.3 million in 1H-2021, an increase of 25.9% year-on-year. Gross profit was HK\$31.2 million, an increase of 27.1% over 1H-2020. Compared with the large-scale shutdown due to the outbreak of COVID-19 in 1H-2020, production and delivery have been relatively stable this year and the Group has also realised considerable growth in revenue.

Due to the fractious China-US relations and the overseas pandemic situation having yet to show a visible improvement, new orders from overseas customers have been comparatively weak in the first half of the year. Most of the Group’s overseas shipments have been in fulfilment of unprocessed orders from last year. During the reporting period, the Group has focused on the China market, seized the opportunities generated from the vigorous promotion of new infrastructure by the country and targeted major customers in various industry application sectors, allowing it to consolidate its strengths and expand opportunities for cooperation.

The supply of semiconductors remains an uncertainty affecting the realisation of the Company's shipment targets for the second half of the year and next year as well. At the same time, rising prices of electronic materials have also placed great pressure on cost control efforts. As for R&D, the Group will focus on the semiconductors platform's ubiquity. It has also worked hard to minimise the impact of material supply on deliveries and is committed to achieving the set delivery targets in the second half of the year.

EMS business

The electronics manufacturing services business (EMS) recorded a revenue of HK\$45.6 million in 1H-2021, an increase of 32.2% over 1H-2020. Gross profit margin was 3.4%, a decrease of 1 percentage point year-on-year (1H-2020:4.4%). During the reporting period, production orders of factories in China returned to pre-pandemic levels and the proportion of higher value-added products dominated by 4G modules notably increased, leading to year-on-year growth in revenue.

The Group has recently increased its investment in EMS and automation equipment across the entire production line, aiming to expand production capacity, reduce the proportion of labour costs in manufacturing costs and improve product quality, and hence provide better services to its customers.

IOT system and O2O business

The Group entered into an agreement to dispose of its 98.7% equity interest in Shanghai Yunhao Trading Limited on 23 March 2021 and the transaction was completed on 6 April 2021, marking the complete exit of all of its offline business from this segment. Subsequently, the Group will combine the IOT business with the terminals business segment, in order to provide customers with "cloud + terminal" one-stop solutions.

Property management

As at 30 June 2021, the revenue of property management was mainly derived from the leasing of SIM Technology Building Block A and Block B in Shanghai, factory units in Shanghai and Shenyang and commercial properties in Shenyang. A total area of approximately 77,000 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 its factories and other buildings.

The revenue of properties management for 1H-2021 amounted to HK\$30.6 million (1H-2020: HK\$18.4 million) with a gross profit margin of 96.7% (1H-2020: 95.9%).

Prospects

In the second half of 2021, the Group will continue to focus on the China market. Capitalising on the momentum of expanding its reach to new customers in 1H-2021, the Group, guided by the industry-leading approaches of “new 5G infrastructure development” and “expansion of industry segments”, will focus on key customers across various sectors and increase its R&D investment in self-defined products and general semiconductor platforms. Also, to cope with the dual pressure of rising material costs and production shortage, the Group has pushed aggressively towards its plan to set up a supply chain delivery and production base in the Greater Bay Area. The base is expected to be completed and commence operation by the end of 2023.

In the second half of 2021, the Group will continue to uphold the “customer first, honest and pragmatic, innovative and pioneering” philosophy to strengthen strategic planning, focus on its core businesses, improve efficiency, control costs and achieve a turnaround in its business as soon as possible.

FINANCIAL REVIEW OF CONTINUING OPERATIONS

For 1H-2021, the revenue of the Group was HK\$384.5 million (1H-2020: HK\$297.8 million), in which the revenue from handsets and IOT terminals business and EMS business (“**Core Business**”) increased by 26.6% to HK\$353.9 million (1H-2020: HK\$279.4 million) as compared with that of 1H-2020. The revenue from property management (“**Non-core Business**”) increased by 66.4% to HK\$30.6 million in 1H-2021 as compared with that in 1H-2020 (1H-2020: HK\$18.4 million).

The gross profit for 1H-2021 for Core Business of the Group increased period-to-period by 25.7% to HK\$32.7 million (1H-2020: HK\$26.0 million). The gross profit margin for Core Business was maintained at 9.3% (1H-2020: 9.3%). The overall gross profit margin of the Group for 1H-2021 increased to 16.2% (1H-2020: 14.7%).

The Group recorded a loss attributable to owners of the Company from continuing operations of HK\$60.5 million (1H-2020: HK\$33.6 million). The basic loss per share from continuing operations for 1H-2021 was HK2.6 cents (1H-2020: HK1.4 cents). Such increase in loss was mainly attributable to the factors discussed below:

During 1H-2020, the PRC government announced certain financial measures and supports for corporate to overcome the negative impact arising from the pandemic. In particular, the Ministry of Human Resources and Social Security issued an announcement regarding the administration of Chinese social security contributions during the period of prevention and containment of the spread of COVID-19 and decided to reduce or waive employer obligations on social security contributions for a specified period from February to December 2020 to ease the burden of enterprises during this difficult time. Approximately HK\$13,876,000 of the retirement benefits costs were waived from February to June 2020. However, such arrangement has been discontinued in 1H-2021. Accordingly, the Group resumed making full contributions in 1H-2021 and thus experienced a considerable increase in costs.

Under the Group's new management, heavy investment has been made to seek out and recruit outstanding and experienced personnel in order to prepare the Group for rapid growth in the coming years. As there is a high demand for skilled technology workers in the PRC, further investment has been made to retain existing talent (e.g. raising bonuses) in order to motivate the Group's entire staff and strengthen their sense of belonging to the Group. The Group therefore incurred further costs.

The Group proactively invested in opening new product lines (e.g. data communication products) and expanding its customer base in 1H-2020. Specifically, the Group managed to secure orders from 2 major operators in the industry during 1H-2021 but almost none of the deliveries was made due to the global semiconductor shortage. Nonetheless, the Group's new management took the proactive view that the Group should not idle during the time and that the Group's research and development of new markets must stay at the forefront of the industry or else the opportunity for growth would be lost. There was therefore a significant increase in the Group's research and development costs.

Segment results of core business

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %
Handsets and IOT terminals business	308.3	31.2	10.1	244.9	24.5	10.0
EMS business	45.6	1.5	3.4	34.5	1.5	4.4
Total	<u>353.9</u>	<u>32.7</u>	<u>9.3</u>	<u>279.4</u>	<u>26.0</u>	<u>9.3</u>

Handsets and IOT terminals business

Compared with the large-scale shutdown due to the outbreak of COVID-19 in 1H-2020, production and delivery have been relatively stable this year and the Group has also realised considerable growth in revenue. The revenue of handsets and IOT terminals business for 1H-2021 increased by 25.9% to HK\$308.3 million (2020: HK\$244.9 million) as compared to that of 1H-2020. The gross profit margin for this segment slightly increased to 10.1% in 1H-2021 (1H-2020: 10.0%). The revenue of ODM business contributed to approximately 94% of the revenue of this segment in 1H-2021 (1H-2020: 90%).

EMS business

During 1H-2021, production orders of factories in China returned to pre-pandemic levels and the proportion of higher value-added products dominated by 4G modules notably increased, leading to year-on-year growth in revenue. Revenue of this segment increased period-to-period by 32.2% to HK\$45.6 million in 1H-2021 but the gross profit margin decreased to 3.4% (1H-2020: 4.4%).

Disposal of IOT system and O2O business

During 1H-2021, the Group completed the disposal of 98.7% equity interest in 上海雲灝貿易有限公司 (unofficial English translation being Shanghai Yunhao Trading Limited). A loss on disposal of HK\$0.8 million was recorded in the period. Further information relating to such disposal is set out in the section headed “Material Acquisition and Disposal of Subsidiaries or Associated Companies” below.

For the purpose of presenting the consolidated financial statements of the Group for the periods ended 30 June 2021 and 2020, the financial information of IOT system and O2O business was presented as discontinued operations.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2021, the Group had bank balances and cash of HK\$384.0 million (31 December 2020: HK\$667.9 million), of which 44.2% was held in US dollars, 55.7% was held in Renminbi and the remaining balance was held in Hong Kong dollars, and short-term deposits of HK\$475.5 million (31 December 2020: \$281.6 million) among which 84.8% was held in US dollars and 15.2% was held in Renminbi. As at 30 June 2021, the Group also had pledged bank deposits of HK\$15.9 million (31 December 2020: HK\$5.9 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 bank deposits, property, plant and equipment, investment properties and land use rights) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$70.3 million as at 30 June 2021 (31 December 2020: HK\$36.0 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 respective turnover period of inventory, trade and notes receivables, trade and notes payables of the Group for the Core Business is presented below:

	30 June 2021 Days	31 December 2020 Days (restated)
Inventory turnover period	125	123
Trade and notes receivables turnover period	55	77
Trade and notes payables turnover period	107	92

The inventory turnover period remained relatively stable in 1H-2021 and year 2020.

In 1H-2021, the proportion of accounts receivable with longer credit period decreased. As a result, the trade and note receivable turnover days decreased for 1H-2021 as compared to that of year 2020.

As affected by the COVID-19 pandemic, certain creditors' repayment schedules had been slowed down in 1H-2021 as compared to that of year 2020. As a result, the trade and notes payables turnover days increased for 1H-2021 as compared to that of year 2020.

As at 30 June 2021, the current ratio, calculated as current assets over current liabilities, was 3.6 times (31 December 2020: 3.6 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 its 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.

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, thereby exposing the Group to the currency risk of US dollars. During 1H-2021, 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 exposure in US dollars when necessary.

Capital structure

As at 30 June 2021, the Company had 2,362,549,300 ordinary shares of HK\$0.10 each in issue.

The Company has issued 3,000 ordinary shares of HK\$0.10 each upon the exercise of share options by an employee of the Company during 1H-2021.

Save as disclosed above, no shares of the Company have been issued during 1H-2021.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2021 and 1H-2020:

	1H-2021	1H-2020
	<i>HK\$'M</i>	<i>HK\$'M</i>
Net cash (used in) from operating activities	(80.8)	41.5
Capital expenditure	(20.9)	(2.1)
Development costs	(21.0)	(39.1)
Net increase (decrease) in bank borrowings	34.3	(15.9)
Purchase of equity instruments at FVTOCI	(9.0)	–
Receipt of consideration receivables	30.2	0.7
Repayment of lease liabilities	(5.0)	(4.8)
Interest paid	(1.6)	(0.7)
Others	(6.2)	(2.1)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents (including pledged bank deposits and short-term bank deposits)	<u>(80.0)</u>	<u>(22.5)</u>

GEARING RATIO

As at 30 June 2021, the total assets of the Group were HK\$2,685.4 million (31 December 2020: HK\$2,801.6 million) and the bank borrowings were HK\$70.3 million (31 December 2020: HK\$36.0 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 2.6% (31 December 2020: 1.3%).

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.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES OR ASSOCIATED COMPANIES

On 23 March 2021, 上海雲貿物聯網科技有限公司(Shanghai Yunmao IOT Limited*) (“**Shanghai Yunmao**”), an indirect wholly-owned subsidiary of the Company, entered into the sales and purchase agreement with Cheng Shuchun and Huang Xiaoyan, pursuant to which Shanghai Yunmao agreed to sell and Cheng Shuchun and Huang Xiaoyan agreed to purchase 98.7% equity interest of 上海雲灝貿易有限公司(Shanghai Yunhao Trading Limited*) at a consideration of RMB34,180,000. The disposal was completed during 1H-2021.

Further details of the above mentioned disposal are disclosed in the announcement of the Company dated 23 March 2021.

Save as disclosed above, during the 1H-2021, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the announcement of the Company dated 26 January 2021, the Group entered into a framework agreement with the People’s Government of Huangjiang Town, Dongguan, to signify to Group’s intention to invest an aggregate amount of RMB2,000,000,000 to develop the Group’s own technological industrial park in Huangjiang Town, Dongguan, thereby consolidating the Group operations and maximizing its development potential. It is expected that the Group will invest RMB1,000,000,000 in fixed asset investment and the remaining RMB1,000,000,000 for operating cashflow.

Save as disclosed above, the Group did not have any future plans for material investment or capital assets during 1H-2021.

SIGNIFICANT INVESTMENT

As at 30 June 2021, the Group did not have any significant investment.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2021, the Group had approximately 1,450 (31 December 2020: 1,149) 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 and share awards under the share award scheme of the Company to its employees by reference to individual performance and the performance of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2021, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

EVENT AFTER THE REPORTING PERIOD

After the end of 1H-2021, the Group received payment of approximately RMB32.7 million for the settlement of a court case involving breach of entrusted loan agreement by a debtor of the Group. Impairment loss in relation to such entrusted loan and accrual interest in the amount of HK\$11.9 million and HK\$26.3 million have been made in the financial statements of the Group for the year ended 31 December 2018 and 31 December 2019 respectively.

Save as disclosed above, there have been no other significant events of the Group occurred since the end of 1H-2021.

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-2021.

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 3 June 2021 (“**2021 AGM**”), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to illness. Mr Liu Jun, an executive Director and the chief technical officer of the Group, chaired the 2021 AGM on behalf of the chairman of the Board pursuant to the bye-laws of the Company and was available to answer questions. Mr Liu Hing Hung, an independent non-executive Director and the chairman of the remuneration committee of the Board and the audit committee of the Board (“**Audit Committee**”), was also available at the 2021 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-2021.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practice adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for 1H-2021. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2021 has been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu. The Audit Committee comprises all three independent non-executive Directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement has been published on the respective websites of the Company (www.sim.com) and the Stock Exchange (www.hkexnews.hk). The 2021 interim report will be dispatched to the Shareholders and be available on the above websites in due course.

APPRECIATION

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

DIRECTORS

As at the date of this announcement, the executive directors of the Company are Ms Yeung Man Ying, Mr Wong Cho Tung, Mr Liu Jun and Mr Zhu Wenhui, and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Li Minbo and Mr Wu Zhe.

By Order of the Board
SIM Technology Group Limited
Wong Cho Tung
Executive Director

This announcement contains certain forward-looking statements. The words “intend”, “expect”, “anticipate”, “is confident”, and similar expressions are intended to identify forward-looking statements. These statements are not historical facts or guarantees of future performance. Actual results could differ materially from those expressed, implied or forecasted in such forward-looking statements. Such forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of the Company about the business, the industry and the market in which the Group operates, and are subject to risks, uncertainties and other factors that could significantly affect expected results.

26 August 2021

* *For identification purposes only*