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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 2020

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 2020 (“**1H-2020**”) together with the comparative figures for the six months ended 30 June 2019 (“**1H-2019**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	Notes	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	3	431,739	517,177
Cost of sales and services		(370,615)	(463,875)
Gross profit		61,124	53,302
Other income	5	19,721	14,679
Reversal of impairment losses, net of impairment (impairment losses under expected credit model, net of reversal)		1,267	(27,357)
Other gains and losses	5	(19,214)	3,678
Research and development expenses		(40,852)	(48,836)
Selling and distribution costs		(18,400)	(36,836)
Administrative expenses		(47,594)	(49,971)
Share of results of associates		(223)	(1,039)
Finance costs		(1,389)	(640)
Loss before taxation		(45,560)	(93,020)
Taxation	6	2,667	3,192
Loss for the period	7	(42,893)	(89,828)
Loss for the period attributable to:			
Owners of the Company		(46,990)	(92,789)
Non-controlling interests		4,097	2,961
		(42,893)	(89,828)
Loss per share (HK cents)	9		
Basic		(1.9)	(3.7)
Diluted		(1.9)	(3.7)

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

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Loss for the period	7	(42,893)	(89,828)
Other comprehensive expense for the period:			
Items that will not be subsequently reclassified to profit or loss for the period:			
Surplus on transfer of right-of-use assets and property, plant and equipment to investment properties at fair value		2,495	23,146
Fair value (loss) gain on investment in equity instrument at fair value through other comprehensive income		(10)	3,607
Deferred tax relating to items that will not be reclassified to profit or loss		(621)	(6,689)
Exchange difference arising on translation to presentation currency		(21,261)	4,070
Other comprehensive (expense) income for the period		(19,397)	24,134
Total comprehensive expense for the period		(62,290)	(65,694)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(66,099)	(68,242)
Non-controlling interests		3,809	2,548
		(62,290)	(65,694)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June	31 December
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current assets			
Investment properties		593,756	608,388
Property, plant and equipment		241,816	267,712
Right-of-use assets		72,659	55,098
Intangible assets		111,982	116,704
Deferred tax assets		43,425	44,092
Finance lease receivables		185	188
Interests in associates		6,424	6,647
Equity instruments at fair value through other comprehensive income (“FVTOCI”)		648	669
Other receivables		7,283	7,412
Consideration receivables		3,311	4,043
		1,081,489	1,110,953
Current assets			
Inventories		302,309	250,771
Finance lease receivables		165	169
Properties held for sale		10,751	12,711
Trade and notes receivables	10	220,088	282,462
Contract assets		4,562	11,201
Other receivables, deposits and prepayments		218,150	230,478
Consideration receivables		1,689	1,857
Amounts due from non-controlling shareholders of subsidiaries		–	4,496
Financial assets at fair value through profit or loss (“FVTPL”)		5,712	22,512
Pledged bank deposits		32,134	31,226
Short-term bank deposits		323,633	296,380
Bank balances and cash		561,059	611,714
		1,680,252	1,755,977

		30 June	31 December
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Current liabilities			
Trade and notes payables	<i>11</i>	243,346	224,322
Contract liabilities		172,888	202,255
Other payables, deposits received and accruals		38,523	54,273
Bank borrowings		60,693	77,936
Lease liabilities		8,536	6,319
Tax payable		38,475	40,224
		<u>562,461</u>	<u>605,329</u>
Net current assets		<u>1,117,791</u>	<u>1,150,648</u>
Total assets less current liabilities		<u>2,199,280</u>	<u>2,261,601</u>
Capital and reserves			
Share capital		236,508	243,072
Reserves		1,772,906	1,849,269
Equity attributable to owners of the Company		2,009,414	2,092,341
Non-controlling interests		22,139	18,330
Total equity		<u>2,031,553</u>	<u>2,110,671</u>
Non-current liabilities			
Lease liabilities		21,241	2,865
Deferred tax liabilities		109,042	112,413
Deferred income		37,444	35,652
		<u>167,727</u>	<u>150,930</u>
		<u>2,199,280</u>	<u>2,261,601</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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, IOT system and online-to-offline (“O2O”) business, intelligent manufacturing business, property development 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” 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 Stock Exchange.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impact to the global economy, business environment and directly and indirectly affect the operation of the Group. The Group stopped its manufacturing activities in handset and IOT terminal business, EMS business, and Intelligent manufacturing business from January to February 2020 due to mandatory government quarantine measures imposed by the relevant authorities in the People Republic of China (“PRC”).

The outbreak of the COVID-19 not only threatened the operations of many industries and businesses, but also adversely impacted the economic development in the PRC. In face of the slowdown in the economic growth in the PRC, impacts including reduction in revenue and production and delay in shipment during the close-down period.

On the other hand, the PRC government has announced some financial measures and supports for corporate to overcome the negative impact arising from the pandemic. On 30 January 2020, 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, 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.

In addition, during the current interim period, its PRC subsidiaries received HK\$192,000 subsidies from the PRC local government for financial assistance to the Group, which has been recognised as other income during the interim period.

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 the change in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”) accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

Application of new and amendments to IFRS Standards

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the new and 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.

2.1 Impacts of application on Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 Impacts and accounting policies on application of Amendments to IFRS 3 “Definition of a business”

2.2.1 Accounting policies

Business combinations or asset acquisitions

Operational concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permit a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets required is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalent, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

2.2.2 Transition and summary effects

The amendments had no impact on the condensed consolidated financial statements of the Group.

3. REVENUE

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2020 (unaudited)

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	IOT system and O2O business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Property development <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	-	-	-	-
Sale of goods to vending machine customers and franchisee	-	-	81,268	-	-	-
Procurement agency service	-	-	14,814	-	-	-
Sale of intelligent manufacturing products	-	-	-	36,691	-	-
Sale of properties	-	-	-	-	1,146	-
Property rental	-	-	-	-	-	18,362
Total	244,933	34,525	96,082	36,691	1,146	18,362
Revenue from contracts with customers and timing of revenue recognition						
A point in time	244,933	-	96,082	36,691	1,146	N/A
Over time	-	34,525	-	-	-	N/A
Total	244,933	34,525	96,082	36,691	1,146	N/A

For the six months ended 30 June 2019 (unaudited)

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	IOT system and O2O business <i>HK\$'000</i>	Intelligent manufacturing business <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property management <i>HK\$'000</i>
Types of goods or services						
Sale of handsets and IOT terminals	286,753	–	–	–	–	–
Electronic manufacturing services	–	51,170	–	–	–	–
Sale of goods to vending machine customers and franchisee	–	–	97,247	–	–	–
Equipment finance lease service	–	–	78	–	–	–
Procurement agency service	–	–	8,925	–	–	–
Sale of intelligent manufacturing products	–	–	–	46,377	–	–
Sale of properties	–	–	–	–	5,616	–
Property rental	–	–	–	–	–	21,011
Total	286,753	51,170	106,250	46,377	5,616	21,011
Revenue from contracts with customers and timing of revenue recognition						
A point in time	286,753	–	106,172	46,377	5,616	N/A
Over time	–	51,170	–	–	–	N/A
Total	286,753	51,170	106,172	46,377	5,616	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 of the Company, for the purpose of allocating resources to segments and assessing their performance.

During the six month period ended 30 June 2020 and 2019, the Group was organised into six reportable and operating segments, being handsets and IOT terminals business, EMS business, IOT system and O2O business, intelligent manufacturing business, property development and property management business.

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

For the six months ended 30 June 2020
(Unaudited)

	Handsets and IOT terminals business HK\$'000	EMS business HK\$'000	IOT system and O2O business HK\$'000 <i>(Note)</i>	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue							
External sales	<u>244,933</u>	<u>34,525</u>	<u>96,082</u>	<u>36,691</u>	<u>1,146</u>	<u>18,362</u>	<u>431,739</u>
Segment (loss) profit	<u>(22,324)</u>	<u>255</u>	<u>(4,865)</u>	<u>(4,174)</u>	<u>(998)</u>	<u>(1,600)</u>	<u>(33,706)</u>
Other income and other gains and losses							(5,369)
Share of results of associates							(223)
Corporate expenses							(4,873)
Finance costs							<u>(1,389)</u>
Loss before taxation							<u>(45,560)</u>

For the six months ended 30 June 2019
(Unaudited)

	Handsets and IOT terminals business HK\$'000	EMS business HK\$'000	IOT system and O2O business HK\$'000 <i>(Note)</i>	Intelligent manufacturing business HK\$'000	Property development HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue							
External sales	<u>286,753</u>	<u>51,170</u>	<u>106,250</u>	<u>46,377</u>	<u>5,616</u>	<u>21,011</u>	<u>517,177</u>
Segment (loss) profit	<u>(59,689)</u>	<u>491</u>	<u>(8,121)</u>	<u>(5,584)</u>	<u>(2,646)</u>	<u>10,953</u>	<u>(64,596)</u>
Other income and other gains and losses							(20,177)
Share of results of associates							(1,039)
Corporate expenses							(6,568)
Finance costs							<u>(640)</u>
Loss before taxation							<u>(93,020)</u>

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, net gain or loss on financial assets at fair value through profit or loss, write-off of amounts due from non-controlling shareholders of subsidiaries and 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	31 December
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Segment assets		
Handsets and IOT terminals business	653,041	657,760
EMS business	146,475	174,595
IOT system and O2O business	108,177	108,110
Intelligent manufacturing business	162,669	174,523
Property development	15,821	17,634
Property management	611,974	631,693
	<hr/>	<hr/>
Total segment assets	1,698,157	1,764,315
Unallocated assets	1,063,584	1,102,615
	<hr/>	<hr/>
Total assets	2,761,741	2,866,930
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Handsets and IOT terminals business	372,878	368,890
EMS business	66,940	39,717
IOT system and O2O business	17,714	17,022
Intelligent manufacturing business	71,884	66,156
Property development	6,646	9,791
Property management	7,026	7,026
	<hr/>	<hr/>
Total segment liabilities	543,088	508,602
Unallocated liabilities	187,100	247,657
	<hr/>	<hr/>
Total liabilities	730,188	756,259
	<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, entrusted loan receivables, consideration receivables, amounts due from non-controlling shareholders of subsidiaries, pledged 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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income		
Refund of Value Added Tax (“VAT”) (<i>Note i</i>)	1,904	2,010
Government grants (<i>Note ii</i>)	5,808	5,155
Interest income earned on bank balances	11,296	7,226
Others	713	288
	<u>19,721</u>	<u>14,679</u>
	<u>19,721</u>	<u>14,679</u>
Other gains and losses		
Gain (loss) on disposal of property, plant and equipment	126	(885)
Net foreign exchange loss	(8,585)	(6,069)
Changes in fair values of investment properties	(8,924)	3,078
Write off of other receivables	(1,896)	–
Write off of amount due from non-controlling shareholders of subsidiaries	(4,496)	–
Net (loss) gain arising on financial assets measured at fair value through profit or loss	(762)	2,954
Others	5,323	4,600
	<u>(19,214)</u>	<u>3,678</u>
	<u>(19,214)</u>	<u>3,678</u>

Notes:

- (i) Shanghai Simcom Limited and Shanghai Pami Intelligent Technology 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 2020, the amount includes HK\$4,344,000 (six months ended 30 June 2019: HK\$3,716,000) unconditional government grants received during the period which was granted to encourage for the Group’s research and development activities in the PRC.

As at 30 June 2020, an amount of HK\$39,589,000 (31 December 2019: HK\$41,495,000) 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	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	485	(3,865)
PRC Land Appreciation Tax	(49)	(3,931)
Overprovisions on PRC Land Appreciation Tax in previous years	–	8,761
Deferred tax credit	<u>2,231</u>	<u>2,227</u>
Taxation for the period	<u>2,667</u>	<u>3,192</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 Enterprise Income Tax (“EIT”) is calculated at the rate prevailing in the relevant districts of the PRC and taking relevant tax incentives into account.

The provision of PRC Land Appreciation Tax 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 2019: 30% to 60%) of the appreciation value, with certain allowable deductions.

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period is arrived at after charging:		
Amortisation of intangible assets (included in cost of sales and services)	41,756	59,532
Less: Amount capitalised in development costs	(3,354)	(3,403)
Less: Amount capitalised in inventories	<u>(38,402)</u>	<u>(56,129)</u>
	–	–
Impairment loss recognized in respect of intangible assets (included in cost of sales and services)	–	21,072
Depreciation of property, plant and equipment	21,272	27,529
Less: Amount capitalised in development costs	(1,365)	(2,284)
Less: Amount capitalised in inventories	<u>(12,820)</u>	<u>(13,701)</u>
	<u>7,087</u>	11,544
Depreciation of right-of-use assets	6,221	4,550

Six months ended 30 June**2020** 2019**HK\$'000** **HK\$'000****(unaudited)** **(unaudited)**

Staff costs including directors' emoluments	102,675	125,477
Less: Amount capitalised in development costs	(24,880)	(42,428)
Less: Amount capitalised in inventories	(9,127)	(7,725)
	68,668	75,324
Costs of inventories recognised as an expense (included in cost of sales and services)	336,151	410,554
Costs of properties sold (included in cost of sales and services)	1,440	4,275
Cost of manufacturing services (included in cost of sales and services)	33,024	49,046

8. DIVIDENDS

No dividend were paid, declared or proposed during the interim period (six months ended 30 June 2019: special dividends of HK1 cent per share amounting to HK\$24,993,000).

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

9. LOSS PER SHARE

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

Six months ended 30 June**2020** 2019**HK\$'000** **HK\$'000****(unaudited)** **(unaudited)****Loss**

Loss for the purposes of basic and diluted loss per share (loss for the period attributable to the owners of the Company)	(46,990)	(92,789)
	'000	'000

Number of shares

Weighted average number of ordinary shares for the purpose of diluted loss per share	2,410,381	2,493,872
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For the six months ended 30 June 2020 and 2019, the computation of diluted loss per share does not assume the exercise of share options since such assumed exercise would reduce loss per shares of the Company for the period.

10. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods and services is 0 – 90 days.

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

	As at 30 June 2020 <i>HK\$'000</i> (unaudited)	As at 31 December 2019 <i>HK\$'000</i> (audited)
Trade receivables		
0 – 30 days	117,300	184,216
31– 60 days	34,564	41,753
61– 90 days	20,237	15,293
91– 180 days	26,625	14,893
Over 180 days	34,673	48,061
	<u>233,399</u>	<u>304,216</u>
Less: Accumulated for credit losses	<u>(16,709)</u>	<u>(28,387)</u>
	<u>216,690</u>	<u>275,829</u>
Notes receivables (Note)		
0 – 30 days	–	726
31 – 60 days	–	1,619
61 – 90 days	–	55
91 – 180 days	3,178	4,009
Over 180 days	220	224
	<u>3,398</u>	<u>6,633</u>
Trade and notes receivables	<u><u>220,088</u></u>	<u><u>282,462</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 2020 HK\$'000 (unaudited)	As at 31 December 2019 HK\$'000 (audited)
Trade payables		
0 – 30 days	132,636	149,035
31– 60 days	11,466	19,724
61– 90 days	3,597	2,636
Over 90 days	70,487	47,858
	218,186	219,253
Notes payables		
0 – 30 days	–	5,069
91 – 180 days	25,160	–
Trade and notes payables	243,346	224,322

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to the shareholders of the Company (“Shareholders”) for 1H-2020.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group experienced its most difficult half-year period since its founding in 1H-2020 due to the worldwide spread of the COVID-19 pandemic and the increasing volatility in the global political and economic environment as a result of the worsening of China-US relations. The Group was unable to resume production in the first quarter of 2020 due to the pandemic and its business was basically stagnant. In particular, the Group suffered a huge loss in January and February 2020 because its outgoings remained significant. The situation had gradually improved starting from March as the Group began to process the large amount of previously accumulated orders. Although the Group’s main business segments recorded a monthly profit in May and June of the second quarter of 2020, the amount of profit was unable to completely offset the huge loss incurred in the first quarter of 2020 and the Group still recorded an overall loss in 1H-2020. The performance of all business segments of the Group also deteriorated year-on-year.

Handsets and IOT terminals business

In 1H-2020, sales revenue of the handsets and IOT terminals business segment amounted to HK\$244.9 million, representing a decline of 14.6% against the same period last year. Gross profit was HK\$24.5 million, an increase of 160.4% when compared with last year. Gross profit margin also rose by 6.7 percentage points year-on-year to 10.0%. In fact, gross profit margin of this segment for 1H-2020 was at a normal level this year, but was on the low side in 2019. This was because several projects were cancelled last year and the capitalization of research and development (R&D) expenses had already been timely written off. Since April this year, with the resumption of order in society and in the operation of most of the supply chain, the Group sped up shipment of accumulated orders and saw notable growth in sales in the second quarter of 2020 when compared with the first quarter of 2020 and the corresponding period last year.

Looking ahead to the second half of the year, the worsening relations between China and the US and the uncertainties related to the development of the COVID-19 pandemic will continue to adversely affect the terminals business segment. The number of new orders placed by overseas clients has been significantly less than expected. Except for the additional orders received for certain products due to the pandemic, shipment of a majority of projects has already decelerated since July 2020. Uncertainties still loom over the Group’s operations in the second half of the year.

To cope with the unprecedentedly severe challenges in the external operating environment, the Group has implemented a series of measures that are aimed at broadening sources of income, reducing expenditure as well as enhancing efficiency. The Group has also adjusted the strategies for its clients, markets and products based on actual conditions. For example, it has stepped up its investment in self-developed products and focused on data and wearable products based on market and client surveys and analysis. It has also centralised R&D resources and completed various reference designs and samples for promotion to potential clients. It is hoped that these measures will positively impact the volume of shipment in the second half of 2020 as they help lower the investment risks of clients and shorten the cycle of product development and launch. To address the downturn in domestic and overseas markets, the Group will target China's new infrastructure market and seize related opportunities, as well as actively extend its reach to the Mainland market and clients there. The Group expects to gradually launch its new projects in year 2021.

The deteriorating external economic environment and the pandemic have presented some difficulties to the operations of the terminals segment in the second half of the year as well as next year. The Group will adjust the product and market directions of this business segment according to actual conditions while adhering to its set strategies in order to overcome the effects brought about by a variety of unfavourable factors and ensure the accomplishment of its set business goals for the year.

EMS business

The electronics manufacturing services (EMS) business segment achieved sales revenue of HK\$34.5 million for 1H-2020, representing a year-on-year decrease of 32.5%. Gross profit declined by 29.3% year-on-year to HK\$1.5 million. The substantial decrease of sales revenue was due to the effects of the pandemic. As the Group's factories in three locations in China were unable to resume operation and production timely, the production capacity was idle for two months during the first quarter of 2020. Meanwhile, given the tough external operating environment, the markets of its existing clients also slowed down. Consequently, overall performance of this business segment was below the Group's expectation.

The Group will not change its overall strategy for its EMS business in the future. In addition to maintaining a good relationship with its existing EMS clients, it will explore prospects to secure more new clients and new processing product categories. It will continue to increase investment to expand the deployment of automation and artificial intelligence in production operations, in order to lower labour costs and improve quality control over its products. Furthermore, it will also build new production bases and relocate assembly and packaging processes to other regions with lower labour costs. In the future, the Group will continue to provide higher quality services to clients while controlling its costs and boosting its competitiveness.

IOT system and O2O business

The Group has continued streamlining the offline business of its O2O automated vending machine platform, gradually switching the business focus away from the automated vending machines and placing it on the O2O business of the IOT system platform that provides better prospects. Regarding the “Internet of Vehicles” business, the Group has achieved landmark progress. In future, the Group will combine together the IOT business with the terminals business segment in order to provide clients with “cloud + terminal” one-stop solutions.

Intelligent manufacturing business

During 1H-2020, revenue of this segment dropped by 20.9% year-on-year to HK\$36.7 million. Gross profit decreased by 24.3% year-on-year to HK\$10.9 million. Gross profit margin declined slightly when compared with the same period last year. Under the influence of the external market factors and the pandemic, most of the players in the manufacturing industry in China suspended operations and production in the first quarter of 2020, and the clients temporarily suspended their purchases of intelligent equipment while some postponed their orders. The work resumption rate in enterprises along the upstream supply chain has not been high. Shortages of key materials in the intelligent equipment industry may lead to the rise of prices, resulting in higher procurement costs and thus lowering gross profit margin of this business segment.

Despite the extremely difficult external operating environment and the unsatisfactory performance of this business segment, the Group has still adhered to its business philosophy of delivering value to and achieving mutually beneficial outcomes with clients. In the first half of the year, the Group focused on further developing the areas and industries in which it specialises. It also increased investment in the R&D and marketing of automated optical inspection (AOI) test equipment for the glass covers for the smart handset industry and audio video interleave (AVI) test equipment for the printed circuit board (PCB) industry. As a result of these efforts, it has achieved positive results. By meeting the clients’ demand and helping them overcome the challenges they faced during the COVID-19 pandemic via a timely provision of a variety of products, solutions and services, the Group gained their recognition and support, thereby laying the groundwork for future orders when the demand and production resume.

Following full resumption of production and operations and as the consumer electronics industry enters its mid-year peak season, manufacturing companies are expected to face difficulties in recruitment and management along with high labor costs, but the challenges will strengthen clients’ determination to adopt intelligent manufacturing equipment, thus creating new market opportunities for the Group’s business. In addition, two new products developed by the Group in the past two years, the AOI for the glass cover of mobile phones and AVI test equipment for the PCB industry will be launched in the second half of 2020. The Group still has confidence in the outlook of the intelligent manufacturing business.

Properties development

As at 30 June 2020, “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 1,839 units have been sold.

As at 30 June 2020, “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 748 residential units, 7 shops and 22 commercial units have been sold and delivered to the buyers.

A substantial amount of the above properties was sold and delivered to the buyers in 1H-2018 and only a small amount of the remaining properties was sold and delivered in 1H-2020, resulting in a huge decrease in revenue to HK\$1.1 million (2019: HK\$5.6 million) with a gross profit margin of -25.7% (2019: 23.9%).

Properties management

As at 30 June 2020, 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 55,000 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-2020 amounted to HK\$18.4 million (2019: HK\$21.0 million) with a gross profit margin of 95.9% (2019: 94.5%).

Prospects

The Group is faced with unprecedented and fundamental changes on a scale unseen in nearly a century, highlighted by the China-US trade war and the COVID-19 pandemic, which together have brought negative impact on its business and the industries in which it operates. Its markets have not yet recovered as the pandemic is not under control overseas and the Group is unable to secure new foreign clients and new projects for existing clients have been put on hold.

The Group’s operational strategy for the next phase of development will base around the major domestic cycle in China, which means focusing on domestic clients mainly, striving to secure business opportunities presented by the big projects in the country. Due to the influence of the pandemic, domestic cycles will be developed and the Group is targeting clients in Shanghai, Beijing, Shenzhen and their neighboring areas in particular. However, overseas markets will not be overlooked, so the foreign and domestic cycles can complement each other, giving the Group an opportunity to secure new projects from existing clients.

The Group will steadily pursue advancement in its business in a pragmatic manner. Efforts will be made to reduce expenses and expand income sources, close unprofitable business, make and manage investment in new projects. The Group will also focus on its technological platform, target industries, premium clients and hit products. Beyond this, the Group will strive to strengthen internal capabilities amidst such adverse conditions, control costs and improve efficiency across its operations effectively. As long as the external environment does not deteriorate further, the Management hopes it can achieve a turnaround in the coming year.

FINANCIAL REVIEW

For 1H-2020, the revenue of the Group was HK\$431.7 million (2019: HK\$517.2 million), in which the revenue from handsets and IOT terminals business, EMS business, IOT system and O2O business and intelligent manufacturing business (together, “core business”) decreased by 16.0% to HK\$412.2 million (2019: 490.6 million) as compared with that of 1H-2019. The revenue from the sale of residential properties and property management (together “non-core business”) decreased by 26.7% to HK\$19.5 million in 1H-2020 as compared with that in 1H-2019 (2019: HK\$26.6 million).

The gross profit for 1H-2020 for core business of the Group increased period-to-period by 36.4% to HK\$43.8 million (2019: HK\$32.1 million). The gross profit margin for core business increased to 10.6% (2019: 6.6%). The overall gross profit margin of the Group for 1H-2020 increased to 14.2% (2019: 10.3%).

As a result of the decrease in revenue in 1H-2020, the Group achieved a loss attributable to owners of the Company of HK\$47.0 million (2019: HK\$92.8 million). The basic loss per share for 1H-2020 was HK1.9 cents (2019: HK3.7 cents).

Segment results of core business

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	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	245	25	10.0	287	10	3.3
EMS business	34	1	4.4	51	2	4.1
IOT system and O2O business	96	7	7.2	106	6	5.8
Intelligent manufacturing business	37	11	29.6	46	14	31.0
Total	<u>412</u>	<u>44</u>	<u>10.6</u>	<u>490</u>	<u>32</u>	<u>6.6</u>

Handsets and IOT terminals business

The Group was unable to resume production in the first quarter of 2020 due to the pandemic and its business was basically stagnant. The revenue of handsets and IOT terminals business for 1H-2020 decreased by 14.6% to HK\$244.9 million (2019: HK\$286.8 million) as compared to that of 1H-2019. The gross profit margin for this segment increased to 10.0% in 1H-2020 (2019: 3.3%). Gross profit margin for the year was at a normal level this year, but was on the low side in 2019. This was because several projects were cancelled last year and the capitalization of R&D expenses had already been timely written off. The revenue of ODM business contributed to approximately 90% of the revenue of this segment in 1H-2020 (2019: 88%).

EMS business

Due to the effects of the pandemic, the Group's factories in three locations in China were unable to resume operation and production timely, the production capacity was idle for two months during the first quarter of 2020. In addition, given the tough external operating environment, the markets of its existing clients also slowed down. As a result, the revenue of this segment decreased year-on-year by 32.5% to HK\$34.5 million in 1H-2020 however the gross profit margin slightly increased year-on-year to 4.4% (2019: 4.1%).

IOT system and O2O business

During 1H-2020, the Group has continued streamlining the offline business of its O2O automated vending machine platform and gradually switched the business focus away from the automated vending machines. The revenue of this segment recorded was HK\$96.1 million (2019: HK\$106.2 million) and the gross profit margin slightly increased to 7.2% (2019: 5.8%).

Intelligent manufacturing business

During 1H-2020, under the influence of the external market factors and the pandemic, most of the players in the manufacturing industry in China suspended operations and production in the first quarter of 2020 and the clients temporarily suspended their purchases of intelligent equipment while some postponed their orders. As a result, the revenue of this segment decreased to HK\$36.7 million (2019: HK\$46.4 million). In addition, the work resumption rate in enterprises along the upstream supply chain has not been high. Shortages of key materials in the intelligent equipment industry may lead to the rise of prices, resulting in higher procurement costs and thus lowering gross profit margin of this business segment. The gross profit margin slightly decreased to 29.6% in 1H-2020 (2019: 31.0%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2020, the Group had bank balances and cash of HK\$561.1 million (31 December 2019: HK\$611.7 million), of which 56.3% was held in US dollars, 43.7% was held in Renminbi and the remaining balance was held in Hong Kong dollars, and short-term deposits of HK\$323.6 million (31 December 2019: \$296.4 million) among which 79.5% was held in US dollars and 20.5% was held in Renminbi. As at 30 June 2020, the Group also had pledged bank deposits of HK\$32.1 million (31 December 2019: HK\$31.2 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 investment properties, property, plant and equipment, right-of-use assets and pledged bank deposits) to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$60.7 million as at 30 June 2020 (31 December 2019: HK\$77.9 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 2020	31 December 2019
	<i>Days</i>	<i>Days</i>
Inventory turnover period	136	102
Trade and notes receivables turnover period	106	74
Trade and notes payables turnover period	145	79

The outbreak of COVID-19 pandemic since early 2020 has caused delays of production and delivery to the Group, thus the inventory turnover days for 1H-2020 increased as compared to that of year 2019.

As affected by the COVID-19 pandemic, certain debtors' repayment schedules had been slowed down. In addition, the proportion of accounts receivables with longer credit period increased in 1H-2020. As a result, the trade and notes receivables turnover days increased for 1H-2020 as compared to that of year 2019.

As affected by the COVID-19 pandemic, certain creditor's repayment schedules had been slowed down in 1H-2020 as compared to that of year 2019. As a result, the trade and notes payables turnover days increased for 1H-2020 as compared to that of year 2019.

As at 30 June 2020, the current ratio, calculated as current assets over current liabilities, was 3.0 times (31 December 2019: 2.9 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.

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-2020, 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 2020, the Company had 2,365,086,300 ordinary shares of HK\$0.10 each in issue.

No shares of the Company have been issued during 1H-2020.

CASH FLOW STATEMENT HIGHLIGHTS

The following is the highlights of the cash flow statement of the Group for 1H-2020 and 1H-2019:

	1H-2020 <i>HK\$'M</i>	1H-2019 <i>HK\$'M</i>
Net cash from operating activities	41.5	205.9
Capital expenditure	(2.1)	(20.8)
Development costs	(39.1)	(63.1)
Net (decrease) increase in bank borrowings	(15.9)	15.2
Net decrease in other liabilities	–	(30.1)
Cash transferred to non-controlling interest upon share reduction in registered capital of a subsidiary that does not result in losing control	–	(45.4)
Proceeds from disposal of financial assets at fair value through profit or loss	16.0	–
Repayment of lease liabilities	(4.8)	(3.3)
Dividend paid	–	(25.0)
Interest paid	(0.7)	(0.4)
Repurchase of shares	(16.8)	(16.2)
Others	(0.6)	4.8
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents (including pledged bank deposits and short-term bank deposits)	(22.5)	21.6
	<hr/> <hr/>	<hr/> <hr/>

GEARING RATIO

As at 30 June 2020, the total assets of the Group was HK\$2,761.7 million (31 December 2019: HK\$2,866.9 million) and the bank borrowings was HK\$60.7 million (31 December 2019: HK\$77.9 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 2.2% (31 December 2019: 2.7%).

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 AND ASSOCIATED COMPANIES

During the 1H-2020, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the circular of the Company dated 18 January 2018, the Group intends to apply part of the net proceeds from the Disposal for purchase of a piece of the land for the Group's operations centre in Dongguan, the PRC and the related construction costs.

Save as disclosed above, the Group did not have any plans for material investment or capital assets during 1H-2020.

SIGNIFICANT INVESTMENT

As at 30 June 2020, the Group did not have any significant investment.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2020, the Group had approximately 1,610 (31 December 2019: 1,760) 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the 6 months ended 30 June 2020, the Company repurchased 65,638,000 shares of the Company on the Stock Exchange and the shares repurchased were cancelled subsequently. Details of the repurchase were as follows:

Month of repurchase	Number of shares repurchased <i>'000</i>	Price per share		Aggregate price paid (inclusive of related expenses) <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
January 2020	8,794	0.285	0.265	2,455
April 2020	8,338	0.249	0.198	1,778
May 2020	28,506	0.265	0.248	7,398
June 2020	20,000	0.265	0.249	5,197
	<u>65,638</u>			<u>16,828</u>

Other than the share repurchased by the Company as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during 1H-2020.

EVENT AFTER THE REPORTING PERIOD

There have been no significant events since the end of 1H-2020.

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-2020.

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 16 June 2020 (“2020 AGM”), Ms Yeung Man Ying, the chairman of the Board, was unable to attend due to an unexpected business engagement. Mr Liu Jun, an executive Director and the chief executive officer of the Group, chaired the 2020 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 2020 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-2020.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated interim financial information of the Group for 1H-2020. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2020 have 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 2020 interim report will be dispatched to the Shareholders and 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, Ms Tang Rongrong and Mr Liu Jun, and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Wang Tianmiao 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.

25 August 2020

* *For identification purposes only*