



SIM Technology

SIM Technology Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 2000)



INTERIM REPORT

2023

CHAIRMAN'S STATEMENT



On behalf of the board ("Board") of directors ("Directors") of SIM Technology Group Limited ("Company"), I am presenting the interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2023 ("1H-2023").

BUSINESS REVIEW

In 1H-2023, regarding the international global landscape, there was no significant improvement in the China–United States tension, and the Russian-Ukraine war continued to create serious headwinds for the global economy. Although the impact of the COVID-19 pandemic on the domestic economy and society of China has gradually receded, the export volume of Chinese enterprises has dropped drastically, with the investment of private enterprises being shrunk and the public becoming more cautious in consumption. Under such a harsh environment, the Group was not able to achieve rapid growth after the pandemic. In 1H-2023, the Group achieved a turnover of HK\$297.8 million, which was 7.0% more than the same period last year, and gross profit of HK\$52.8 million, which was 378.1% more than the same period last year, resulting in an overall loss attributable to owners of the Company of HK\$50.4 million. Although both the Group's turnover and gross profit increased compared to the same period last year, they were still far below their pre-pandemic level. The decline in demand in both the domestic and overseas markets as well as the fierce price competition in the industry resulted in the sales volume and gross profit of the products falling far short of expectations. At present, although each project under the core business of the Group, namely the handsets and IOT terminals business, has made some gross profit to a different extent, the total turnover has remained at a low level due to the small number of deliveries made. The management has already optimized the Group's structure and controlled its expenses, but the current business scale makes it difficult to cover the fixed costs of the Group's back-office departments, and losses are therefore inevitable. Corporations making loss as a result of lack of orders and fierce price competition in the industry is a common situation in the current PRC manufacturing industry.

CHAIRMAN'S STATEMENT

Handsets and IOT terminals business

After the full relaxation of pandemic controls in the PRC in early 2023, the production and deliveries of the Group basically stopped in January and February. At the same time, the Group was still in the throes of its cost control reform, and downsizing was not yet completed, which resulted in a certain time lag in its cost control. Coupled with its slow recovery, this business recorded a significant loss in the first quarter. Although the situation improved in the second quarter, the business was still unable to achieve overall profitability in 1H-2023. The business achieved a turnover of HK\$272.6 million for 1H-2023, which was 8.5% more than the same period last year, and a gross profit of HK\$30.1 million, representing a significant increase over the gross loss of HK\$13.8 million for the same period last year. Gross loss for 1H-2022 was incurred due to the prolonged closure of the plants out of the ongoing lockdown and control measures while bearing all fixed costs as usual.

Despite the year-on-year increase in both the sales and gross profit for 1H-2023, they fell far short of expectations. Firstly, against the global economic recession, the willingness of domestic and overseas customers to place orders had significantly reduced. Secondly, due to the international political factors, the Group's overseas business development encountered unprecedented difficulties, and it was inconvenient for overseas customers to come to China for business negotiations. As a result, the Group and its manufacturing peers were faced with the oversupply of goods and a shortage of demand in 1H-2023. Price competition in the market became increasingly fierce, resulting in not only a lack of orders but also a significant drop in the expected gross profit margins of products.



CHAIRMAN'S STATEMENT



The management will continue to adhere to the handsets and IOT terminals business, being the core business and the foundation of the Group, and take proactive and effective measures to cope with the current decline in performance and intensified competition in the market. Leveraging its leading technologies accumulated in the relevant fields and its good reputation in the industry over the past two decades, the Group will strengthen product innovation to provide customers with more competitive products and continuously improve customer satisfaction. Against the backdrop of a shrinking business scale, it is even more important to stay focused, pay attention to the key points, and place great emphasis on technology platforms, market segments, major customers and flagship products. As we strive to open up new sources of income, we will not forget to cut down on expenses. Internally, we will further optimize the Group's structure and operation processes, so as to achieve duplicated use of personnel, reduction in costs and increase in efficiency. However, for this business unit, it is of utmost importance to open up new sources of income and increase turnover as soon as possible. Only by expanding turnover will it be possible to apportion the Group's and the departments' fixed costs.

Property management

In 1H-2023, 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 109,000 square meters was leased out. To utilize our resources more effectively and develop the property management business, the Group will continue to lease some of the spare space at its factories and other buildings.

The revenue of properties management for 1H-2023 amounted to HK\$25.1 million (1H-2022: HK\$27.0 million) with a gross profit margin of 90.2% (1H-2022: 92.2%).

CHAIRMAN'S STATEMENT

Prospects

Looking back at 1H-2023, although the Group's loss narrowed as compared with same period last year, the macroeconomic situation for the second half of the year remains very challenging and the road ahead will continue to be difficult. While the relocation of the Qingpu Plant (as defined below) will be gradually completed in the second half of the year and the merger of the two plants will allow further control of costs, the Group will not be able to rapidly increase its sales in the short term and the loss from its core business is likely to persist in the second half of the year.

The management believes that these difficulties are only temporary, and the economic environment will definitely improve. In the future, the management will continue to strengthen the exploration of new businesses, new operating models and new management structures, so as to ensure the early recovery of the Group's business and turn losses into profits.

Appreciation

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

Wong Cho Tung

Chairman

Hong Kong, 25 August 2023

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

For 1H-2023, the revenue of the Group was HK\$297.8 million (1H-2022: HK\$278.3 million), in which the revenue from the handsets and IOT terminals business, which is the core business of the Group, increased by 8.5% to HK\$272.6 million (1H-2022: HK\$251.3 million) as compared with that of 1H-2022. In 1H-2023, the revenue from property management, which is the non-core business of the Group, decreased by 6.9% to HK\$25.1 million (1H-2022: HK\$27.0 million) as compared with that in 1H-2022.

The gross profit for 1H-2023 for the handsets and IOT terminal business of the Group was HK\$30.1 million (1H-2022: gross loss HK\$13.8 million). The gross profit margin for the handsets and IOT terminal business was 11.0% (1H-2022: gross loss margin 5.5%) and the gross profit margin for property management decreased to 90.2% (1H-2022: 92.2%). The overall gross profit margin of the Group for 1H-2023 increased to 17.7% (1H-2022: 4.0%).

The Group recorded a loss attributable to owners of the Company of HK\$50.4 million (1H-2022: HK\$324.9 million). The basic loss per share for 1H-2023 was HK2.3 cents (1H-2022: HK14.7 cents). Such decrease in loss was mainly attributable to the following factors:

- (i) in an attempt to reduce the Group's staff cost, since the fourth quarter of the year 2022, the Board had begun to reorganize the top management team, remove the impractical structure of the Group, restore the divisional organization, shut down loss-making departments through lay-off, merging departments and downsizing. As a result, there was a considerable reduction in the Group's research and development expenses, selling and distribution costs and administrative expenses in 1H-2023; and
- (ii) the Board concluded in 1H-2022 that there was indication of impairment in the long-term assets of the handsets and IOT terminal business. Impairment loss on the relevant intangible assets, properties, plants and equipment and right-of-use assets relating to the handsets and IOT terminals business of around HK\$76.9 million were made in 1H-2022 after conducting impairment assessment on these assets. No relevant impairment loss was made in 1H-2023 which also caused the significant decrease in loss in 1H-2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment results of core business

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Revenue HK\$'M	Gross profit HK\$'M	Gross profit margin %	Revenue HK\$'M	Gross loss HK\$'M	Gross loss margin %
Handsets and IOT terminals business	272.6	30.1	11.0	251.3	(13.8)	(5.5)
Total	272.6	30.1	11.0	251.3	(13.8)	(5.5)

Handsets and IOT terminals business

The revenue of this segment for 1H-2023 increased by 8.5% to HK\$272.6 million (1H-2022: HK\$251.3 million) as compared to that of 1H-2022. The gross profit margin of this segment was 11.0% in 1H-2023 (1H-2022: gross loss margin 5.5%). Gross loss for 1H-2022 was incurred due to the prolonged closure of the plants out of the ongoing lockdown and control measures while bearing all fixed costs as usual. After the full reopening of borders of the PRC in early 2023, although the business's recovery progress had been slow, the gross profit margin had already turned from negative to positive. The revenue of ODM business accounted for approximately 92% of the revenue of this segment in 1H-2023 (1H-2022: 89%).



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2023, the Group had bank balances and cash of HK\$97.2 million (31 December 2022: HK\$191.8 million), of which 6.4% was held in US dollars, 93.3% was held in Renminbi and the remaining balance was held in Hong Kong dollars, and short-term deposits of HK\$245.2 million (31 December 2022: HK\$168.1 million) among which 86.5% was held in US dollars and 13.5% was held in Renminbi. As at 30 June 2023, the Group also had pledged bank deposits of HK\$119.1 million (31 December 2022: HK\$165.8 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 bank deposits to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$178.8 million as at 30 June 2023 (31 December 2022: HK\$240.2 million), all of which were 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 handsets and IOT terminals business is presented below:

	30 June 2023 Days	31 December 2022 Days
Inventory turnover period	117	118
Trade and notes receivables turnover period	44	50
Trade and notes payables turnover period	127	148

The inventory turnover period remained relatively stable in 1H-2023 and year 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

As affected by the COVID-19 pandemic, the repayment schedules of certain accounts receivable and accounts payable in year 2022 were delayed as compared to those of 1H-2023. As a result, the trade and notes receivables turnover period and trade and notes payables turnover period for 1H-2023 decreased as compared to those of year 2022.

As at 30 June 2023, the current ratio, calculated as current assets (excluding assets held for disposal) over current liabilities, was 1.6 times (31 December 2022: 1.5 times).

The Group reckons that inventory turnover period, trade and notes receivables turnover period, and trade and notes payables turnover period help the Group understands 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 understands 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-2023, the Group did not use any financial instrument for hedging purpose but it will consider entering into non-deliverable foreign exchange forward contracts to offset the foreign exchange risks dominated in US dollars when necessary.

Capital structure

As at 30 June 2023, the Company had 2,198,525,300 ordinary shares of HK\$0.10 each in issue.

No shares of the Company were issued during 1H-2023.

MANAGEMENT DISCUSSION AND ANALYSIS



GEARING RATIO

As at 30 June 2023, the total assets of the Group were HK\$1,849.0 million (31 December 2022: HK\$2,053.9 million) and the bank borrowings were HK\$178.8 million (31 December 2022: HK\$240.2 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 9.7% (31 December 2022: 11.7%). The bank borrowings were mainly composed of discounted bills of HK\$140,250,000. The Group earns interest spreads on bank deposits by discounted bills.

Through reviewing its gearing ratio on a regular basis and based on its future capital planning needs, the Group strikes a balance between shareholder return and capital security. It also adjusts its capital structure in response to changes in the operational environment.

EMPLOYEES

As at 30 June 2023, the Group had approximately 824 (31 December 2022: 1,088) 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 ("Share Option Scheme") and share awards under the share award scheme ("Share Award Scheme") of the Company to its employees by reference to individual performance and the performance of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EMOLUMENT POLICY

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

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

The Company has adopted the Share Option Scheme and the Share Award Scheme to motivate the eligible persons referred to in the schemes, which include executive Directors and employees of the Group, to optimise their future contributions to the Group and to reward them for their efforts.

FUTURE PLANS FOR MATERIAL INVESTMENT

During 1H-2023, the Group did not have any future plans for material investment or capital assets.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES OR ASSOCIATED COMPANIES

During 1H-2023, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

SIGNIFICANT INVESTMENT

As at 30 June 2023, the Group did not have any significant investment.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS



EVENT AFTER THE REPORTING PERIOD

In July 2023, Shanghai Sunrise Simcom Limited ("SH Sunrise"), an indirect wholly-owned subsidiary of the Company, entered into a land resumption agreement ("Agreement") with the PRC Government in respect of the resumption ("Land Resumption") of the land use rights of the piece of land owned by it in Qingpu, Shanghai together with all buildings, structures and attachments thereat ("Qingpu Plant"). As at 30 June 2023, the properties of SH Sunrise, including certain property, plant and equipment, right-of-use assets and investment properties with carrying amounts of HK\$49,787,000, HK\$4,079,000 and HK\$147,004,000 respectively which were classified as assets held for disposal, are presented separately in the condensed consolidated statement of financial position of the Company. Pursuant to the Agreement, the compensation payable to SH Sunrise for the Land Resumption comprises of three parts. The first part and second part are compensation of RMB374,435,165 and RMB255,919,316, respectively. The third part is an incentive for SH Sunrise to relocate on schedule. If SH Sunrise and all the tenants complete the relocation within 180 days after the effective date of Agreement, SH Sunrise will be awarded an additional incentive of RMB118,470,547. The aforesaid three parts of compensation in aggregate amount to RMB748,825,028 which are payable to SH Sunrise upon the completion of the Land Resumption. The Group has recognised the expenses on the Land Resumption of HK\$29,503,000 in profit or loss for 1H-2023. As at 30 June 2023, the provisions for anticipated expenditure on the Land Resumption related to the compensation for all tenants is HK\$15,263,000.

More details of the Land Resumption were disclosed in the announcement of the Company dated 10 July 2023.

Save as disclosed above, there have been no significant events of the Group occurred since the end of 1H-2023.

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	297,754	278,339
Cost of sales and services		(245,002)	(267,306)
Gross profit		52,752	11,033
Other income	5	38,057	20,717
Other gains and losses	5	(29,899)	(42,131)
Impairment losses on property, plant and equipment, right-of-use assets and intangible assets	11	–	(76,923)
Impairment losses under expected credit model, net of reversal	13	(672)	(12,822)
Research and development expenses		(63,913)	(123,042)
Selling and distribution costs		(10,943)	(18,941)
Administrative expenses		(34,093)	(64,916)
Share of results of associates		(1,168)	1,739
Finance costs		(1,933)	(2,056)
Loss before taxation		(51,812)	(307,342)
Taxation	6	1,473	(17,599)
Loss for the period	7	(50,339)	(324,941)

INTERIM FINANCIAL STATEMENTS

	NOTE	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(50,407)	(324,851)
Non-controlling interests		68	(90)
		(50,339)	(324,941)
Loss per share (HK cents)	9		
Basic		(2.3)	(14.7)
Diluted		(2.3)	(14.7)



INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTE	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Loss for the period	7	(50,339)	(324,941)
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 right-of-use assets and property, plant and equipment to investment properties at fair value		1,328	1,743
Fair value (loss) gain on investment in equity instrument at fair value through other comprehensive income		(413)	4,830
Deferred tax relating to items that will not be reclassified to profit or loss		103	(1,470)
Exchange difference arising on translation to presentation currency		(23,245)	(37,467)
Other comprehensive expense for the period		(22,227)	(32,364)
Total comprehensive expense for the period		(72,566)	(357,305)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(72,634)	(356,777)
Non-controlling interests		68	(528)
		(72,566)	(357,305)

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	NOTES	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Non-current assets			
Investment properties	10	654,104	664,865
Property, plant and equipment	10	65,722	82,218
Right-of-use assets	10	60,557	67,196
Intangible assets	10	74	565
Interests in associates	18	49,372	60,056
Equity instruments at fair value through other comprehensive income ("FVTOCI")	20	57,244	61,376
Consideration receivables		16,919	17,227
		903,992	953,503
Current assets			
Inventories	14	128,661	185,779
Properties held for sale		7,949	8,093
Trade and notes receivables	12	65,917	77,803
Other receivables, deposits and prepayments		60,392	67,418
Consideration receivables		18,698	25,147
Amounts due from associates		–	5,772
Financial assets at fair value through profit or loss ("FVTPL")	20	954	1,602
Pledged bank deposits		119,123	165,846
Short-term bank deposits		245,249	168,122
Bank balances and cash		97,199	191,814
		744,142	897,396
Assets held for disposal		200,870	202,955
		945,012	1,100,351

INTERIM FINANCIAL STATEMENTS

		30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
	NOTES		
Current liabilities			
Trade and notes payables	15	113,181	157,160
Contract liabilities		84,414	105,893
Deposits from tenants		3,926	2,242
Deferred income		1,116	1,136
Other payables and accruals		42,284	48,919
Bank borrowings	16	178,750	240,240
Lease liabilities		2,970	6,884
Provisions	21	15,263	–
Tax payables		33,319	33,981
		475,223	596,455
Net current assets		469,789	503,896
Total assets less current liabilities		1,373,781	1,457,399
Capital and reserves			
Share capital	17	219,852	219,852
Reserves		1,001,727	1,074,361
Equity attributable to owners of the Company		1,221,579	1,294,213
Non-controlling interests		11,259	14,123
Total equity		1,232,838	1,308,336
Non-current liabilities			
Deposits from tenants		6,288	6,666
Lease liabilities		4,529	6,234
Deferred tax liabilities		93,709	96,555
Deferred income		36,417	39,608
		140,943	149,063
		1,373,781	1,457,399

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Attributable to owners of the Company											Non-controlling		
	Share capital	Share premium	Statutory surplus reserve	Other reserve	Share option reserve	Employee share trust reserve	Properties revaluation reserve	Asset revaluation reserve	Capital redemption reserve	Translation reserve	Accumulated profits (loss)	Total	interests	Total
	HK\$'000	HK\$'000	HK\$'000 <i>(Note a)</i>	HK\$'000 <i>(Note b)</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2022 (audited)	227,977	768,915	56,656	95,271	18,060	(16,623)	259,200	3,394	30,475	205,670	233,057	1,881,252	12,931	1,894,183
Loss for the period	-	-	-	-	-	-	-	-	-	-	(324,851)	(324,851)	(80)	(324,941)
Other comprehensive income (expense) for the period	-	-	-	-	-	-	1,480	3,623	-	(37,029)	-	(31,926)	(438)	(32,364)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	1,480	3,623	-	(37,029)	(324,851)	(356,777)	(528)	(357,305)
Exercise of share options	105	189	-	-	(189)	-	-	-	-	-	-	105	-	105
Repurchase of ordinary shares	(4,228)	(13,866)	-	-	-	-	-	-	4,228	-	(4,228)	(18,094)	-	(18,094)
Transfer to statutory surplus reserve	-	-	2,269	-	-	-	-	-	-	-	(2,269)	-	-	-
At 30 June 2022 (unaudited)	223,854	755,238	58,925	95,271	17,871	(16,623)	259,680	7,017	34,703	168,841	(98,291)	1,506,486	12,403	1,518,889
At 1 January 2023 (audited)	219,852	746,459	61,469	95,271	17,871	(16,623)	333,256	3,867	38,705	83,525	(289,439)	1,294,213	14,123	1,308,336
(Loss) profit for the period	-	-	-	-	-	-	-	-	-	-	(50,407)	(50,407)	68	(50,339)
Other comprehensive income (expense) for the period	-	-	-	-	-	-	979	(310)	-	(22,896)	-	(22,227)	-	(22,227)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	979	(310)	-	(22,896)	(50,407)	(72,634)	68	(72,566)
Released upon deregistration of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(762)	(762)
Acquisition of a non-wholly owned subsidiary (Note 18)	-	-	-	-	-	-	-	-	-	-	-	-	(2,170)	(2,170)
Transfer to statutory surplus reserve	-	-	1,285	-	-	-	-	-	-	-	(1,285)	-	-	-
At 30 June 2023 (unaudited)	219,852	746,459	62,754	95,271	17,871	(16,623)	334,235	3,557	38,705	60,629	(341,131)	1,221,579	11,259	1,232,838

INTERIM FINANCIAL STATEMENTS

Notes:

- (a) As stipulated by the relevant laws and regulations of the People's Republic of China ("PRC"), before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund (except where the reserve has reached 50% of the subsidiaries' registered capital). The reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.
- (b) Other reserve was arisen from the reorganisation in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the difference between the considerations paid and the relevant non-controlling interests upon the acquisition of additional interests in subsidiaries.



INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	(52,544)	(206,604)
Decrease in contract liabilities	(20,158)	(9,346)
Other movements in working capitals	60,623	26,871
Cash used in operations	(12,079)	(189,079)
Interest received	8,485	5,817
Tax (refund) paid	538	(270)
NET CASH USED IN OPERATING ACTIVITIES	(3,056)	(183,532)
INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at FVTPL	2,711	4,035
Proceeds on disposal of property, plant and equipment	179	5,822
Purchase of equity instruments at FVTOCI	-	(7,244)
Purchase of property, plant and equipment	(629)	(49,581)
Development costs paid	-	(4,276)
Purchase of intangible assets	(1,437)	(2,230)
Net cash inflow on disposal of an associate	6,941	-
Receipt of amounts due from associates	2,414	-
Receipt of consideration receivables	226	2,173
Placement of pledged bank deposits	(21,546)	(39,163)
Withdrawal of pledged bank deposits	66,371	15,787
Placement of short-term bank deposits	(132,177)	(112,961)
Withdrawal of short-term bank deposits	53,853	267,875
Dividend received	7,273	267
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(15,821)	80,504

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	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
FINANCING ACTIVITIES		
New bank borrowings raised	53,710	104,049
Repayments of bank borrowings	(112,634)	(8,841)
Interest paid	(1,781)	(1,861)
Repayment of lease liabilities	(4,791)	(4,154)
Repurchase of shares	-	(18,094)
Proceeds from exercise of share options	-	105
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(65,496)	71,204
NET DECREASE IN CASH AND CASH EQUIVALENTS	(84,373)	(31,824)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	191,814	322,309
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(10,242)	(3,782)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	97,199	286,703
REPRESENTED BY:		
Bank balances and cash	97,199	187,873
Short-term bank deposits	-	98,830
	97,199	286,703

INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 terminals business ("handsets and IOT terminals business"), and property management in the PRC.

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

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



INTERIM FINANCIAL STATEMENTS

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 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

Application of 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 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two model Rules

Except as described below, 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.

INTERIM FINANCIAL STATEMENTS

2.1 Impacts and changes in accounting policies on application of Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

2.1.1 Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

INTERIM FINANCIAL STATEMENTS

2.1.2 Transition and summary of effects

As disclosed in the Group's annual financial statements for the year ended 31 December 2022, the Group previously applied the IAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;
- (ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group recognised the related deferred tax assets and deferred tax liabilities with same amount of HK\$2,651,000 and HK\$3,134,000 as at 31 December 2022 and 2021 on a gross basis but it has no impact on the retained earnings at the earliest period presented.



INTERIM FINANCIAL STATEMENTS

2.2 Impacts and changes in accounting policies on application of Amendments to IAS 12 Income Taxes International Tax Reform–Pillar Two model Rules

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.



INTERIM FINANCIAL STATEMENTS

3. REVENUE

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2023 (unaudited)

	Handsets and IOT terminals business HK\$'000	Property management HK\$'000	Total HK\$'000
Types of goods or services			
Sale of handsets and IOT terminals	259,086	–	259,086
Electronic manufacturing services	13,541	–	13,541
Property rental	–	25,127	25,127
Total	272,627	25,127	297,754
Revenue from contracts with customers and timing of revenue recognition			
A point in time	259,086	N/A	
Over time	13,541	N/A	
Total	272,627	N/A	

INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022 (unaudited)

	Handsets and IOT terminals business HK\$'000	Property management HK\$'000	Total HK\$'000
Types of goods or services			
Sale of handsets and IOT terminals	233,531	-	233,531
Electronic manufacturing services	17,826	-	17,826
Property rental	-	26,982	26,982
Total	251,357	26,982	278,339
Revenue from contracts with customers and timing of revenue recognition			
A point in time	233,531	N/A	
Over time	17,826	N/A	
Total	251,357	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.

INTERIM FINANCIAL STATEMENTS

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.

In the prior period, the Group was reorganised into three reportable and operating segments, being handsets and IOT terminals business, electronics manufacturing services business and property management.

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

For the six months ended 30 June 2023 (unaudited)

	Handsets and IOT terminals business HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue			
External sales	272,627	25,127	297,754
Segment (loss) profit	(45,051)	14,465	(30,586)
Other income and other gains and losses – unallocated			(14,295)
Share of results of associates			(1,168)
Corporate expenses			(3,830)
Finance costs			(1,933)
Loss before taxation			(51,812)

INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022 (unaudited)

	Handsets and IOT terminals business HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue			
External sales	251,357	26,982	278,339
Segment (loss) profit	<u>(269,535)</u>	<u>2,076</u>	<u>(267,459)</u>
Other income and other gains and losses – unallocated			(34,918)
Share of results of associates			1,739
Corporate expenses			(4,648)
Finance costs			<u>(2,056)</u>
Loss before taxation			<u><u>(307,342)</u></u>

Segment result represents the financial result by each segment without allocation of interest income, dividend income, unallocated foreign exchange gain (loss), loss on acquisition of subsidiaries, net gain or loss on financial assets at fair value through profit or loss, share of results of associates, certain other income, corporate expenses, finance costs and taxation.

INTERIM FINANCIAL STATEMENTS

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Segment assets		
Handsets and IOT terminals business	312,239	430,660
Property management	654,104	812,974
Total reportable segment assets	966,343	1,243,634
Unallocated assets	882,661	810,220
Total assets	1,849,004	2,053,854
Segment liabilities		
Handsets and IOT terminals business	291,543	354,897
Property management	11,296	9,889
Total reportable segment liabilities	302,839	364,786
Unallocated liabilities	313,327	380,732
Total liabilities	616,166	745,518



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INTERIM FINANCIAL STATEMENTS

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than certain property, plant and equipment, certain right-of-use assets, interests in associates, properties held for sale, consideration receivables, pledged bank deposits, short-term bank deposits, bank balances and cash, financial assets at FVTPL, financial assets at FVTOCI 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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income		
Refund of Value Added Tax ("VAT") <i>(Note i)</i>	678	735
Government grants <i>(Note ii)</i>	19,615	10,239
Bank interest income	8,485	7,468
Dividend income	7,273	267
Others	2,006	2,008
	38,057	20,717

INTERIM FINANCIAL STATEMENTS

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Other gains and losses		
Loss on disposal of property, plant and equipment	(361)	(86)
Net foreign exchange gain (loss)	3,868	(30,341)
Changes in fair values of investment properties	(275)	(10,640)
Expenses on land resumption (Note 21)	(29,503)	-
Loss on disposal of an associate (Note 18)	(1,581)	-
Donation	(1,472)	-
Net loss arising on financial assets measured at fair value through profit or loss	(648)	(1,236)
Others	73	172
	(29,899)	(42,131)

Notes:

- (i) Shanghai Simcom Limited ("Shanghai Simcom") 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 2023, the amount includes HK\$1,077,000 (six months ended 30 June 2022: HK\$2,053,000) unconditional government grants received which was granted to encourage the Group's research and development activities in the PRC.

As at 30 June 2023, an amount of HK\$37,534,000 (31 December 2022: HK\$40,744,000) remained to be amortised and is included in other payables (for current portion) and deferred income (for non-current portion).

INTERIM FINANCIAL STATEMENTS

6. TAXATION

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Taxation comprises:		
PRC Enterprise Income Tax ("EIT")	594	(10)
Deferred tax credit (charge)	879	(17,589)
Taxation for the period	1,473	(17,599)

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

EIT is calculated at the rates prevailing in the relevant districts of the PRC taking relevant tax incentives into account. Shanghai Simcom, Kongtop Industrial (Shenzhen) Co., Limited, Smartwireless Technology Limited and Shanghai Sunrise Simcom Limited are classified as New and High Technology Enterprise and are entitled to adopt a tax rate of 15%. The relevant annual tax rate used for EIT for the Group's subsidiaries ranged from 15% to 25% (six months ended 30 June 2022: 15% to 25%).

Deferred tax charge represented taxable temporary differences associated with revaluation of equity instrument at FVTOCI and revaluation of investment properties and the deductible temporary differences that were previously recognised associated with write-down of inventories, trade receivables and impairment of property, plant and equipment. The directors considered the deductible temporary differences that were previously recognised to the extent that the amounts are no longer probable to be recovered and were reversed for both periods.

INTERIM FINANCIAL STATEMENTS

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging (crediting) the following items:		
Amortisation of intangible assets (included in cost of sales and services)	2,348	28,816
Less: Amount capitalised in inventories	(2,348)	(28,816)
	-	-
Depreciation of property, plant and equipment	14,922	16,992
Less: Amount capitalised in inventories	(10,728)	(12,328)
	4,194	4,664
Depreciation of right-of-use assets	3,640	3,652
Staff costs including directors' emoluments	95,829	180,682
Less: Amount capitalised in development costs	-	(3,542)
Less: Amount capitalised in inventories	(17,821)	(13,564)
	78,008	163,576
Cost of inventories recognised as an expense (included in cost of sales and services)	245,002	267,306

INTERIM FINANCIAL STATEMENTS

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 both periods.

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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	(50,407)	(324,851)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,156,895	2,206,191

The calculation of basic and diluted loss per share for the six months ended 30 June 2023 and 2022 has excluded the ordinary shares repurchased but not cancelled and held in a trust which are accounted for as treasury shares of the Company.

For the six months ended 30 June 2023 and 2022, 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.

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

INTERIM FINANCIAL STATEMENTS

10. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Investment properties

The fair value of the Group's investment properties at 30 June 2023 and 31 December 2022 were arrived at on the basis of a valuation carried out on that date by HG Appraisal & Consulting Limited and Vigers Appraisal & Consulting Limited, respectively, independent qualified professional valuers not related to the Group.

The fair value was determined based on the income capitalisation approach, where the market rentals of all lettable units of the properties were assessed and discounted at the market yield expected by investors for this type of properties. The market rentals were assessed based on estimates of future cash flows, supported by the terms of existing lease and the market rentals of the similar properties in the neighbourhood. The rates were determined by reference to the yields derived from analysing the sales transactions of similar commercial and industrial properties in Shanghai and Shenyang and adjusted taking into account the market expectation from property investors to reflect factors specific to the Group's investment properties. The valuation technique used was the same as that adopted in previous years.

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



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INTERIM FINANCIAL STATEMENTS



During the period, the Group transferred certain buildings from property, plant and equipment and right-of-use assets with aggregate carrying amount of HK\$1,643,000 (six months ended 30 June 2022: HK\$1,293,000) to investment properties because its use was changed as evidenced by the end of owner-occupation. The difference between the carrying amounts and the fair values of the relevant properties at the date of transfer amounted to HK\$1,328,000 (six months ended 30 June 2022: HK\$1,743,000) and was recognised in other comprehensive income.

The fair value of investment properties as at 30 June 2023 was HK\$654,104,000 (31 December 2022: HK\$664,865,000) and a fair value loss of HK\$275,000 (six months ended 30 June 2022: fair value loss of HK\$10,640,000) have been recognised directly in profit or loss for the six months ended 30 June 2023.

Property, plant and equipment

During the period, additions to the Group's property, plant and equipment amounted to HK\$629,000 (six months ended 30 June 2022: HK\$49,581,000).

During the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$540,000 (six months ended 30 June 2022: HK\$5,736,000) for cash proceeds of HK\$179,000 (six months ended 30 June 2022: HK\$5,822,000), resulting in a loss on disposal of HK\$361,000 (six months ended 30 June 2022: gain on disposal of HK\$86,000).

INTERIM FINANCIAL STATEMENTS

Right-of-use assets

During the period, the Group entered into several new lease agreements for the use of office premises and warehouses with lease term ranged from two to three years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets and lease liability amounted to HK\$32,000 (six months ended 30 June 2022: HK\$2,182,000).

Intangible assets

During the period, additions to the Group's intangible assets amounted to HK\$1,437,000 (six months ended 30 June 2022: HK\$6,506,000).

For the period ended 30 June 2022, addition to development costs amounted to HK\$4,276,000 for development projects on the products.

11. IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

During the period ended 30 June 2022, due to the adverse change in market condition as a result of the COVID-19 pandemic broke out in Shanghai, where the principal activities of the Group are located, and the excessive investments on the research and development team, the revenue from handsets and IOT terminal business dropped and caused a significant operating loss. The management concluded that there was indication of impairment and conducted impairment assessment on the recoverable amount of the assets allocated to the handsets and IOT terminal business.

The recoverable amount was assessed based on the discounted future pre-tax cash flows expected to be derived from the assets. The key assumptions for the value-in-use calculation related to the estimation of cash inflows/outflows, including budgeted sales, gross profit margin and growth rate. Such estimation was based on the unit's past performance and the management's expectations on market development.

INTERIM FINANCIAL STATEMENTS



Based on the result of the assessment, the management determined that the recoverable amount of the cash-generating unit was lower than the carrying amount. Impairment loss was allocated to each category of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives such that the carrying amount of each category of asset is not less than the highest of its fair value less cost of disposal, its value-in-use and zero. Therefore, no impairment loss was allocated to the buildings and land use rights as their fair values less costs of disposal were higher than the carrying amounts during the period. As at 30 June 2022, impairment loss of HK\$53,224,000, HK\$5,987,000 and HK\$17,713,000 were recognised against the carrying amount of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives, respectively.

As at 30 June 2023, the calculation used cash flow projections approved by the management covering the following 5 years with annual growth rates estimated based on historical records. The cash flows beyond the five-year period were extrapolated using a 1% terminal growth rate. The pre-tax discount rate used in measuring the amount of value-in-use was 15.8%.

No impairment loss was recognised against the carrying amount of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives, respectively during the period ended 30 June 2023. After the impairment assessment, the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets of the Group were HK\$65,722,000, HK\$60,557,000 and HK\$74,000, respectively.

INTERIM FINANCIAL STATEMENTS

12. TRADE AND NOTES RECEIVABLES

The normal credit period given on sale of goods and services relating to handsets and IOT terminals business is 0-90 days. A longer period is granted to a few customers with whom the Group has a good business relationship and which are in sound financial condition.

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:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables		
0-30 days	29,899	35,399
31-60 days	8,863	7,746
61-90 days	836	1,894
91-180 days	858	814
Over 180 days	50,227	66,133
	90,683	111,986
Less: Accumulated for credit losses	(34,435)	(38,863)
	56,248	73,123
Notes receivables (<i>Note</i>)		
0-30 days	7,304	994
31-60 days	2,200	48
61-90 days	165	818
91-180 days	-	2,708
Over 180 days	-	112
	9,669	4,680
Trade and notes receivables	65,917	77,803

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

INTERIM FINANCIAL STATEMENTS

13. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Impairment losses (reversed) recognised in respect of		
Trade receivables	(5,560)	-
Other receivables	732	-
Amounts due from associates (Note 18)	(2,414)	12,822
Consideration receivables	7,914	-
	672	12,822

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

14. INVENTORIES

	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Raw materials	102,457	130,959
Work in progress	6,653	29,811
Finished goods	19,551	25,009
	128,661	185,779

INTERIM FINANCIAL STATEMENTS

15. TRADE AND NOTES PAYABLES

Trade and notes payables principally comprise amounts outstanding for trade purchases. The normal credit period taken for trade purchases is 30-90 days.

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables		
0-30 days	66,662	94,444
31-60 days	2,621	10,581
61-90 days	1,579	4,202
Over 90 days	18,968	13,116
	89,830	122,343
Notes payables		
0-30 days	23,351	34,817
Trade and notes payables	113,181	157,160

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16. BANK BORROWINGS

During the period, the Group obtained new short-term borrowings with total amount of HK\$48,110,000 (six months ended 30 June 2022: HK\$104,049,000). The bank borrowings carry interest rate ranged from 1.55% to 4.5% per annum (six months ended 30 June 2022: interest rate ranged from 1.02% to 3.15% per annum) and are repayable within one year. Pursuant to the loan agreements, the bank borrowings were secured by pledged bank deposits.

17. SHARE CAPITAL

	Number of shares		Share capital	
	2023	2022	2023	2022
	'000	'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At 1 January and 30 June	3,000,000	3,000,000	300,000	300,000
Issued:				
At 1 January	2,198,525	2,279,777	219,852	227,977
Exercise of share options	-	1,050	-	105
Shares repurchased and cancelled	-	(42,280)	-	(4,228)
At 30 June	2,198,525	2,238,547	219,852	223,854

INTERIM FINANCIAL STATEMENTS

18. DISPOSAL OF AN ASSOCIATE AND ACQUISITION OF A SUBSIDIARY

- (a) In February 2023, the Group entered into a sale agreement to dispose the entire 40% equity interest in 上海視馬艾智能科技有限公司 at a consideration of RMB6,310,000 (equivalent to HK\$6,941,000). The transaction has resulted in the Group recognising a loss of HK\$1,581,000 in profit or loss.
- (b) In April 2023, the Group entered into a share transfer agreement to acquire additional 9.45% equity interest in 上海臻康電子有限公司 ("Shanghai Zhenkang") at a consideration of RMB9,640,000 (equivalent to HK\$10,604,000). The consideration was settled by assignment of debt previously owned to the Group. The Group originally owned 41.5% equity interest in Shanghai Zhenkang. Upon completion of the acquisition, Shanghai Zhenkang has become a 50.95% owned subsidiary of the Company. The fair value is provisional and pending receipt of the final valuation. The respective amounts of deferred tax liabilities and goodwill may be adjusted accordingly.



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19. RELATED PARTY TRANSACTIONS

The Group has following transactions and balances with related parties:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Amounts due from associates	–	5,772

The amounts due from associates are unsecured, interest free with 30-60 days credit terms.

	Six months ended 30 June 2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Handset and IOT terminals business income from associates	104	2,600

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

	Six months ended 30 June 2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Short term benefits	1,970	2,799
Post-employment benefits	157	231
	2,127	3,030

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20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).



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	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Relationship of unobservable inputs to fair value
	30 June 2023 HK\$'000 (unaudited)	31 December 2022 HK\$'000 (audited)			
Financial assets: Equity instruments at FVTOCI	57,244	61,376	Level 3	Market approach - in this approach, price to book value (PB multiple) adjusted with discount for lack of marketability was adopted for the valuation of the ownership of the investee base on PB multiple of a group of comparable companies in the market in the similar business.	An increase in the adjusted net assets, holding all other variables constant would increase the carrying amount
Financial assets at FVTPL - listed equity security	954	1,602	Level 1	Quoted bid prices in an active market.	N/A



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INTERIM FINANCIAL STATEMENTS

Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI HK\$'000
As at 1 January 2022 (audited)	63,112
Purchased	7,244
Total gain in other comprehensive income	4,830
Redemption	(4,035)
Exchange adjustment	(2,989)
As at 30 June 2022 (unaudited)	68,162
As at 1 January 2023 (audited)	61,376
Total loss in other comprehensive income	(413)
Redemption	(2,711)
Exchange adjustment	(1,008)
As at 30 June 2023 (unaudited)	57,244

Included in other comprehensive income is an amount of HK\$413,000 fair value loss (six months ended 30 June 2022: HK\$4,830,000 fair value gain) relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of "assets revaluation reserve".

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

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21. EVENT AFTER THE PERIOD END DATE

In July 2023, Shanghai Sunrise Simcom Limited ("SH Sunrise"), an indirect wholly-owned subsidiary of the Company, entered into a land resumption agreement ("Agreement") with the PRC Government in respect of the resumption ("Land Resumption") of the land use rights of the piece of land owned by it in Qingpu, Shanghai together with all buildings, structures and attachments thereat ("Qingpu Plant"). As at 30 June 2023, the properties of SH Sunrise, including certain property, plant and equipment, right-of-use assets and investment properties with carrying amounts of HK\$49,787,000, HK\$4,079,000 and HK\$147,004,000, respectively which were classified as assets held for disposal, are presented separately in the condensed consolidated statement of financial position of the Company. Pursuant to the Agreement, the compensation payable to SH Sunrise for the Land Resumption comprises of three parts. The first part and second part are compensation of RMB374,435,165 and RMB255,919,316, respectively. The third part is an incentive for SH Sunrise to relocate on schedule. If SH Sunrise and all the tenants complete the relocation within 180 days after the effective date of the Agreement, SH Sunrise will be awarded an additional incentive of RMB118,470,547. The aforesaid three parts of compensation in aggregate amount to RMB748,825,028 which are payable to SH Sunrise upon the completion of the Land Resumption. The Group has recognised expenses on the Land Resumption of HK\$29,503,000 in profit or loss for the six months ended 30 June 2023. As at 30 June 2023, the provisions for anticipated expenditure on the Land Resumption related to the compensation for all tenants is HK\$15,263,000.

OTHER INFORMATION

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

As at 30 June 2023, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (CAP 571, Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

Long position in the shares of the Company

Name of director	Nature of interest	Total number of ordinary shares of the Company	Total	Approximate percentage of interest in the Company (note 3)
Mr. Wong Cho Tung	Corporate interest (note 1)	1,209,084,000	1,209,084,000	55.00%
	Personal interest	3,098,000	3,098,000	0.14%
	Total		1,212,182,000	55.14%
Ms. Yeung Man Ying	Corporate interest (note 2)	734,857,000	734,857,000	33.42%
	Personal interest	3,418,000	3,418,000	0.16%
	Total		738,275,000	33.58%
Mr. Liu Jun	Personal interest	1,000,000	1,000,000	0.05%

OTHER INFORMATION



Notes:

1. Mr. Wong Cho Tung ("Mr. Wong") controls more than one-third of the voting power of Info Dynasty Group Limited ("Info Dynasty"). Mr. Wong is therefore deemed to be interested in all the 734,857,000 shares held by Info Dynasty in the Company by virtue of Part XV of the SFO. Mr. Wong is the sole director of Intellipower Investments Limited ("Intellipower") and Simcom Limited ("Simcom (BVI)") is wholly-owned by Mr. Wong. Therefore, Mr. Wong is deemed to be interested in all the 454,227,000 shares and 20,000,000 shares held by Intellipower and Simcom (BVI) in the Company respectively by virtue of Part XV of the SFO.
2. Ms. Yeung Man Ying ("Mrs. Wong"), the spouse of Mr. Wong, controls more than one-third of the voting power of Info Dynasty. Mrs. Wong is therefore deemed to be interested in all the 734,857,000 shares held by Info Dynasty by virtue of Part XV of the SFO.
3. Calculation of percentage of interest in the Company is based on the issued share capital of 2,198,525,300 shares of the Company as at 30 June 2023.

As at 30 June 2023, save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

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

As at 30 June 2023, the interests of the substantial Shareholders and other persons (other than Directors or chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long position in the shares of the Company

Name of shareholder	Nature of interest	Total number of ordinary shares of the Company	Approximate percentage of interest in the Company (note 1)
Info Dynasty (note 2)	Personal interest	734,857,000	33.42%
Intellipower (note 3)	Personal interest	454,227,000	20.66%

Notes:

1. Calculation of percentage of interest in the Company is based on the issued share capital of 2,198,525,300 shares of the Company as at 30 June 2023.
2. The relationship between Info Dynasty and Mr. Wong and the relationship between Info Dynasty and Mrs. Wong are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Position in Shares" above.
3. The relationship between Intellipower and Mr. Wong is disclosed under the paragraph headed "Directors and Chief Executives' Interests and Short Position in Shares" above.

Save as disclosed above, as at 30 June 2023, no other substantial Shareholders or persons had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

OTHER INFORMATION

SHARE OPTIONS

Details of the outstanding share options granted under an expired share option scheme of the Company and their movements during 1H-2023 are as follows:

Category of participants	Date of grant	Outstanding as at 1 January 2023	Exercised during the period	Outstanding as at 30 June 2023
Employees of the Group	19.7.2013	6,096,000	-	6,096,000
Consultants	19.7.2013	45,400,000	-	45,400,000
Total		51,496,000	-	51,496,000

Note: In relation to each grantee of options granted on 19 July 2013, 25% of options would vest in each of the four years from 15 April 2014. The exercise price per share was HK\$0.346 and the exercise period was from 15 April 2014 to 18 July 2023. The grantees who were consultants of the Group are Mr. Lin Bifen and Mr. Tang Yuanyi. The share options were granted to them so as to incentivise them to contribute to the research and development activities of the Group.

No options have been granted by the Company under the Share Option Scheme since its adoption on 1 June 2016. As at 1 January 2023 and 30 June 2023, the number of options available for grant under the Share Option Scheme was 255,789,630 shares, which represent 11.63% of the issued shares of the Company as at the date of this report. No service provider sublimit has been authorised under the Share Option Scheme.

In view of the new requirements under Chapter 17 of the Listing Rules which became effective on 1 January 2023 ("New Share Scheme Rules"), share options shall only be granted under the Share Option Scheme in accordance with and as permitted by the New Share Scheme Rules.

No share option was granted, exercised, cancelled or lapsed during 1H-2023.

SHARE AWARD SCHEME

On 30 September 2020, the Board adopted the Share Award Scheme for the purposes of recognising the contributions by certain employees, directors, and consultants of the Company and giving incentives thereto in order to retain them for the continuing operation and development of the Group and attracting suitable personnel for further development of the Group. The Share Award Scheme is funded by existing shares of the Company.

OTHER INFORMATION

The total number of the shares to be awarded pursuant to the Share Award Scheme shall not exceed 10% of the total issued share capital of the Company as at its date of adoption (i.e. 236,509,030 Shares). In any 12-month period, the maximum number of shares which may be awarded to a selected person shall not exceed 1% of the total number of the shares as at its date of adoption.

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on its date of adoption, after which period no further awards will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme.

No shares have been awarded by the Company under the Share Award Scheme since its date of adoption. As at 1 January 2023 and 30 June 2023, there were 41,630,000 shares held for such scheme with carrying amount of HK\$16,623,000 accumulated in employee share trust reserve.

Save as disclosed above, at no time during 1H-2023 was the Company or any of its subsidiaries a party to any arrangements that would enable the Directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and save as disclosed in this report, none of the Directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during 1H-2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 1H-2023, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

OTHER INFORMATION



CORPORATE GOVERNANCE CODE

According to code provision C.2.1 of the Corporate Governance Code (“Corporate Governance Code”) as set out in Part 2 of Appendix 14 to the Listing Rules, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. On 30 September 2022, Mr. Gao Jun resigned as an executive Director and the chief executive officer of the Group (“CEO”). Ever since the resignation of Mr. Gao Jun, the Company has not been able to identify a suitable candidate for the position of the CEO and the office of the CEO therefore remains vacant. This constitutes a deviation from code provision C.2.1.

However, a management team which takes up the roles and duties of the CEO has been set up by the Group since Mr. Gao Jun’s resignation. The team comprises five members, including three executive Directors, namely Mr. Wong, Mr. Liu Jun and Mr. Zhu Wenhui, and two members of the management of the Company, namely Mr. Zhu Qi (the chief operating officer of the Group) and Mr. Yang Hanjie (the chief marketing officer of the Group). In light of the above, even though the Company has not been able to appoint an individual to take up the role of the CEO since Mr. Gao Jun’s resignation, the Board considers that such a deviation from code provision C.2.1 of the Corporate Governance Code is appropriate under such circumstances.

Save as disclosed above, the Company has complied with the code provisions laid down in the Corporate Governance Code as set out in Part 2 of Appendix 14 to the Listing Rules for 1H-2023.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All Directors confirmed, following specific enquiry by the Company with all Directors, that each of them had fully complied with the required standard as set out in the Model Code during 1H-2023.

AUDIT COMMITTEE

The audit committee of the Board (“Audit Committee”) has reviewed with the management the accounting principles and practice adopted by the Group and reviewed the unaudited condensed consolidated interim financial information of the Group for 1H-2023. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2023 has been reviewed but not audited by our auditor, Messrs. Deloitte Touche Tohmatsu. The Audit Committee comprises all three independent non-executive Directors.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WONG Cho Tung (*Chairman*)

Ms. YEUNG Man Ying

Mr. LIU Jun (*Chief technical officer*)

Mr. ZHU Wenhui

Non-executive Director

Mr. WONG Hei, Simon

Independent non-executive Directors

Mr. LIU Hing Hung

Mr. WU Zhe

Mr. LI Minbo

AUDIT COMMITTEE

Mr. LIU Hing Hung (*Chairman*)

Mr. WU Zhe

Mr. LI Minbo

REMUNERATION COMMITTEE

Mr. LIU Hing Hung (*Chairman*)

Mr. WU Zhe

Mr. LI Minbo

Mr. WONG Cho Tung

NOMINATION COMMITTEE

Mr. LIU Hing Hung (*Chairman*)

Mr. LI Minbo

Mr. WONG Cho Tung

COMPANY SECRETARY

Ms. CHAN Chi Yin

AUDITORS

Certified Public Accountants

Registered public interest entity auditors

Deloitte Touche Tohmatsu

LEGAL ADVISER AS TO HONG KONG LAWS

LCH Lawyers LLP

Eric Chow & Co.

in association with Commerce &

Finance Law Offices

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Shanghai Pudong Development Bank

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