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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 2022

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 2022 (“**1H-2022**”) together with the comparative figures for the six months ended 30 June 2021 (“**1H-2021**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	Notes	Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
Continuing operations			
Revenue	3	278,339	384,476
Cost of sales and services		<u>(267,306)</u>	<u>(322,199)</u>
Gross profit		11,033	62,277
Other income	5	20,717	20,751
Other gains and losses	5	(42,131)	(11,968)
Impairment losses on property, plant and equipment, right-of-use assets and intangible assets	10	(76,923)	–
Impairment losses under expected credit model, net of reversal		(12,822)	(4,000)
Research and development expenses		(123,042)	(77,158)
Selling and distribution costs		(18,941)	(13,211)
Administrative expenses		(64,916)	(48,154)
Share of results of an associates		1,739	10,206
Finance costs		<u>(2,056)</u>	<u>(2,258)</u>

	Notes	Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
Loss before taxation		(307,342)	(63,515)
Taxation	6	<u>(17,599)</u>	<u>3,841</u>
Loss for the period from continuing operations	7	(324,941)	(59,674)
Discontinued operations			
Loss for the period from discontinued operations		<u>–</u>	<u>(9,831)</u>
Loss for the period		<u>(324,941)</u>	<u>(69,505)</u>
Loss for the period attributable to owners of the Company:			
– from continuing operations		(324,851)	(60,465)
– from discontinued operations		<u>–</u>	<u>(9,245)</u>
		<u>(324,851)</u>	<u>(69,710)</u>
(Loss) profit for the period attributable to non-controlling interests:			
– from continuing operations		(90)	791
– from discontinued operations		<u>–</u>	<u>(586)</u>
		<u>(90)</u>	<u>205</u>
Total (loss) profit for the period attributable to:			
Owners of the Company		(324,851)	(69,710)
Non-controlling interests		<u>(90)</u>	<u>205</u>
		<u>(324,941)</u>	<u>(69,505)</u>
Loss per share (HK cents)	9		
From continuing and discontinued operations			
Basic		<u>(14.7)</u>	<u>(3.0)</u>
Diluted		<u>(14.7)</u>	<u>(3.0)</u>
From continuing operations			
Basic		<u>(14.7)</u>	<u>(2.6)</u>
Diluted		<u>(14.7)</u>	<u>(2.6)</u>

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Loss for the period	(324,941)	(69,505)
Other comprehensive income (expense) for the period:		
Items that will not be subsequently reclassified to profit or loss for the period:		
Surplus on transfer of rights-of-use assets and property, plant and equipment to investment properties at fair value	1,743	14,236
Fair value gain on investment in equity instrument at fair value through other comprehensive income	4,830	963
Deferred tax relating to items that will not be reclassified to profit or loss	(1,470)	(3,720)
Exchange difference arising on translation to presentation currency	(37,467)	2,848
Other comprehensive (expense) income for the period	(32,364)	14,327
Total comprehensive expense for the period	(357,305)	(55,178)
Total comprehensive (expense) income attributable to:		
Owners of the Company	(356,777)	(56,777)
Non-controlling interests	(528)	1,599
	(357,305)	(55,178)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 <i>HK\$'000</i> (unaudited)	31 December 2021 <i>HK\$'000</i> (audited)
Non-current assets			
Investment properties		751,889	793,755
Property, plant and equipment		179,251	205,990
Right-of-use assets		35,507	44,802
Intangible assets		18,218	60,561
Deferred tax assets		–	68,824
Interests in associates		59,021	59,613
Equity instruments at fair value through other comprehensive income (“FVTOCI”)		68,162	63,112
Consideration receivables		33,354	34,443
		1,145,402	1,331,100
Current assets			
Inventories		294,149	244,761
Properties held for sale		9,196	9,613
Trade and notes receivables	11	81,151	98,244
Other receivables, deposits and prepayments		126,340	159,980
Consideration receivables		20,507	23,214
Amounts due from associates		7,579	20,485
Financial assets at fair value through profit or loss (“FVTPL”)		2,916	4,152
Pledged bank deposits		38,313	16,145
Short-term bank deposits		301,891	353,177
Bank balances and cash		187,873	322,309
		1,069,915	1,252,080
Current liabilities			
Trade and notes payables	12	211,097	218,852
Contract liabilities		113,990	126,412
Deposits from tenants		4,192	5,468
Other payables, deposits received, accruals and deferred income		45,047	49,323
Bank borrowings		133,175	41,851
Lease liabilities		5,519	6,019
Tax payable		35,439	37,311
		548,459	485,236
Net current assets		521,456	766,844
Total assets less current liabilities		1,666,858	2,097,944

	30 June 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
Capital and reserves		
Share capital	223,854	227,977
Reserves	<u>1,282,632</u>	<u>1,653,275</u>
Equity attributable to owners of the Company	1,506,486	1,881,252
Non-controlling interests	<u>12,403</u>	<u>12,931</u>
Total equity	<u>1,518,889</u>	<u>1,894,183</u>
Non-current liabilities		
Deposits from tenants	8,565	7,620
Lease liabilities	6,709	8,554
Deferred tax liabilities	89,538	143,158
Deferred income	<u>43,157</u>	<u>44,429</u>
	<u>147,969</u>	<u>203,761</u>
	<u>1,666,858</u>	<u>2,097,944</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda (as amended) with limited liability.

The Company is an investment holding company. The principal activities of its subsidiaries are carrying out handsets and internet of things (“**IOT**”) terminals business, electronic manufacturing services (“**EMS**”) business and property management in the People’s Republic of China (“**PRC**”).

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

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

During the current interim period, due to the mandatory restrictions imposed in parts of the PRC (especially Shanghai) to combat the coronavirus disease (COVID-19) pandemic since mid-March 2022, the Group’s operations were substantially affected and the turnover of the Group dropped significantly compared with six months ended 30 June 2021.

The management of the Group had reassessed its forecast and concluded there was indication for impairment in the handsets and IOT terminals business and EMS business. It conducted impairment assessment of the relevant cash-generating units and an impairment loss was recognised for certain long-term assets. Details of the impairment assessment are set out in Note 10.

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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of new and amendments to IFRS Standards

In the current interim period, the Group has applied the following amendments to IFRSs, for the first time, which are mandatory effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3	Reference to Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018 – 2020

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

3. REVENUE

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2022 (unaudited)

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>233,531</u>	<u>17,826</u>	<u>26,982</u>	<u>278,339</u>

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	<u>233,531</u>	<u>17,826</u>	<u>N/A</u>

For the six months ended 30 June 2021 (unaudited)

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services				
Sale of handsets and IOT terminals	308,257	–	–	308,257
Electronic manufacturing services	–	45,656	–	45,656
Property rental	–	–	30,563	30,563
Total	<u>308,257</u>	<u>45,656</u>	<u>30,563</u>	<u>384,476</u>

Revenue from contracts with customers and timing of revenue recognition

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

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.

The Group was reorganised into three (year ended 31 December 2021: three) reportable and operating segments, being handsets and IOT terminals business, EMS 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 2022 (unaudited)

Continuing operations

	Handsets and IOT terminals business HK\$'000	EMS business HK\$'000	Property management HK\$'000	Consolidated HK\$'000
Revenue				
External sales	<u>233,531</u>	<u>17,826</u>	<u>26,982</u>	<u>278,339</u>
Segment (loss) profit	<u>(255,813)</u>	<u>(13,722)</u>	<u>2,076</u>	(267,459)
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>(307,342)</u>

For the six months ended 30 June 2021 (unaudited)

Continuing operations

	Handsets and IOT terminals business <i>HK\$'000</i>	EMS business <i>HK\$'000</i>	Property management <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue				
External sales	<u>308,257</u>	<u>45,656</u>	<u>30,563</u>	<u>384,476</u>
Segment (loss) profit	<u>(80,647)</u>	<u>743</u>	<u>10,547</u>	(69,357)
Other income and other gains and losses – unallocated				1,326
Share of results of associates				10,206
Corporate expenses				(3,432)
Finance costs				<u>(2,258)</u>
Loss before taxation				<u>(63,515)</u>

Segment result represents the financial result by each segment without allocation of interest income, dividend income, unallocated foreign exchange loss, loss on disposal of subsidiaries, net gain or loss on financial assets at fair value through profit or loss, 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 2022 HK\$'000 (unaudited)	31 December 2021 HK\$'000 (audited)
Segment assets		
Handsets and IOT terminals business	621,725	641,264
EMS business	53,367	80,138
Property management	751,889	817,259
	<hr/>	<hr/>
Total reportable segment assets	1,426,981	1,538,661
Unallocated assets	788,336	1,044,519
	<hr/>	<hr/>
Total assets	2,215,317	2,583,180
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Handsets and IOT terminals business	382,208	387,956
EMS business	8,522	50,744
Property management	36,878	16,660
	<hr/>	<hr/>
Total reportable segment liabilities	427,608	455,360
Unallocated liabilities	268,820	233,637
	<hr/>	<hr/>
Total liabilities	696,428	688,997
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable and operating segments other than certain property, plant and equipment, certain right-of-use assets, interests in associates, properties held for sale, consideration receivables, pledged bank deposits, short-term bank deposits, bank balances and cash, financial assets at FVTPL, financial assets at FVTOCI, 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	
	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)
Other income		
Refund of Value Added Tax (“VAT”) (<i>Note i</i>)	735	1,030
Government grants (<i>Note ii</i>)	10,239	9,338
Interest income earned on bank balances	7,468	9,926
Dividend income	267	101
Others	2,008	356
	<u>20,717</u>	<u>20,751</u>
Other gains and losses		
Net foreign exchange loss	(30,341)	(6,786)
Changes in fair values of investment properties	(10,640)	(4,181)
Loss on disposal of subsidiaries	–	(2,221)
Net loss arising on financial assets measured at fair value through profit or loss	(1,236)	(1,036)
Others	86	2,256
	<u>(42,131)</u>	<u>(11,968)</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 2022, the amount includes HK\$2,053,000 (six months ended 30 June 2021: HK\$4,490,000) unconditional government grants received during the period which was granted to encourage the Group’s research and development (“R&D”) activities in the PRC.

As at 30 June 2022, an amount of HK\$43,157,000 (31 December 2021: HK\$45,736,000) 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
2022 2021
HK\$'000 **HK\$'000**
(unaudited) (unaudited)

Taxation comprises:

PRC Enterprise Income Tax (“EIT”)	(10)	(126)
Deferred tax (charge) credit	(17,589)	3,967
	(17,599)	3,841
Taxation for the period	(17,599)	3,841

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

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

7. LOSS FOR THE PERIOD

Six months ended 30 June
2022 2021
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)	28,816	33,976
Less: Amount capitalised in development costs	–	(135)
Less: Amount capitalised in inventories	(28,816)	(33,841)
	–	–
Depreciation of property, plant and equipment	16,992	16,421
Less: Amount capitalised in development costs	–	(1,370)
Less: Amount capitalised in inventories	(12,328)	(13,323)
	4,664	1,728
Depreciation of right-of-use assets	3,652	5,128
Staff costs including directors’ emoluments	180,682	94,351
Less: Amount capitalised in development costs	(3,542)	(23,166)
Less: Amount capitalised in inventories	(13,564)	(11,313)
	163,576	59,872
Costs of inventories recognised as an expense (included in cost of sales and services)	237,087	278,081
Cost of manufacturing services (included in cost of sales and services)	30,219	44,118
	267,806	376,170

8. DIVIDENDS

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

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	<u>(324,851)</u>	<u>(69,710)</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>2,206,191</u>	<u>2,362,549</u>

The calculation of basic and diluted loss per share for the six months ended 30 June 2022 and 2021 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 2022 and 2021, 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.

From continuing operations

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss figures are calculated as follow:		
Loss for the period attributable to owners of the Company	(324,851)	(69,710)
Add: Loss for the period from discontinued operations	<u>N/A</u>	<u>9,245</u>
Loss for the purposes of calculating basic and diluted loss per share from continuing operations	<u>(324,851)</u>	<u>(60,465)</u>

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

From discontinued operations

For the six months ended 30 June 2021, basic and diluted loss per share from discontinued operations was HK0.4 cents per share based on the loss for the period from discontinued operations of HK\$9,245,000 and the denominators detailed above for both basic and diluted loss per share.

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

In 2021, the management of the Group formulated aggressive development plan that the Group's business had to grow rapidly in the next few years. The Group invested heavily in expanding its R&D team and recruited talents from the industry to join the management team and various departments. The Group achieved remarkable results in expanding its customer base. During the current interim period, the COVID-19 pandemic broke out again in different parts of the PRC, especially in Shanghai where the Group's headquarters, R&D centres and main production plants are located. During the two-month lockdown, nearly every sector of Shanghai's economy was severely hit. The production and deliveries of both new and the existing projects were delayed or could not be executed due to the abnormal supply of materials and the inability to communicate with upstream and downstream partners. As a result, the sales channels acquired last year could not be converted into revenue. The revenue of the Group dropped significantly.

The management of the Group considered that the impact of the pandemic was particularly severe and expected the economy to take longer time of recovery. As a result, the management of the Group reassessed its forecast for the year taking into consideration the current sales orders on hand and concluded there was indication for impairment in handsets and IOT terminal business and EMS business. The management of the Group conducted impairment assessment on certain property, plant and equipment, right-of-use assets and intangible assets with finite useful lives in handsets and IOT terminal business with carrying amounts of HK\$156,930,000, HK\$19,970,000 and HK\$35,488,000, respectively and impairment assessment on certain property, plant and equipment and right-of-use assets in EMS business with carrying amounts of HK\$37,230,000 and HK\$2,165,000, respectively. The recoverable amounts of owned properties and related leasehold land in handsets and IOT terminal business are estimated individually.

Handsets and IOT terminal business

The recoverable amount of the assets is determined on the basis of the cash-generating unit to which the assets belong as it was not possible to estimate the individual recoverable amount for assets other than owned properties and related leasehold lands. The recoverable amount of the cash-generating unit was determined based on value-in-use calculation as it was not possible to measure fair value less costs of disposal of these assets because there was no basis to make a reliable estimation of the amount obtainable from the sales of the assets in an orderly transaction between market participants at the measurement date. 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 relate 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. As at 30 June 2022, 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 3% terminal growth rate. The growth rates were assessed taking into consideration a higher degree of estimation uncertainties due to uncertainty on how the COVID-19 pandemic may progress and evolve. The pre-tax discount rate used in measuring the amount of value-in-use was 16.25%.

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. Therefore, 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. Based on the value-in-use calculation and the allocation, 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 within the relevant functions to which these assets relate. As at 30 June 2022, the accumulated impairment loss of the related property, plant and equipment, right-of-use assets and intangible assets with finite useful lives were HK\$79,364,000, HK\$5,830,000, and HK\$56,248,000, respectively.

The Group estimated the recoverable amounts of the owned properties and related leasehold lands in handsets and IOT terminal business based on fair value less costs of disposal. The carrying amounts of the relevant assets did not exceed the recoverable amounts based on fair value less costs of disposal and no impairment was recognised.

EMS business

The recoverable amount of the assets was determined on the basis of the cash-generating unit to which the assets belong as it was not possible to estimate the recoverable amount individually. The recoverable amount of the cash-generating unit was determined based on value-in-use calculation as it was not possible to measure fair value less costs of disposal because there was no basis to make a reliable estimation of the amount obtainable from the sales of the assets in an orderly transaction between market participants at the measurement date. 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 relate 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. As at 30 June 2022, 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 3% terminal growth rate. The growth rates were assessed taking into consideration a higher degree of estimation uncertainties due to uncertainty on how the COVID-19 pandemic may progress and evolve. The pre-tax discount rate used in measuring the amount of value-in-use was 15.98%.

Based on the result of the assessment, the management determined that the recoverable amount of the cash-generating units was higher than the carrying amount. Therefore, no impairment was recognised during the period.

11. TRADE AND NOTES RECEIVABLES

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

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

	As at 30 June 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
Trade receivables		
0 – 30 days	54,244	57,907
31– 60 days	5,266	6,356
61– 90 days	2,057	7,289
91– 180 days	6,711	15,408
Over 180 days	35,182	30,955
	<u>103,460</u>	<u>117,915</u>
Less: Accumulated for credit losses	(25,012)	(27,290)
	<u>78,448</u>	<u>90,625</u>
Notes receivables (Note)		
0 – 30 days	2,305	5,034
31 – 60 days	11	495
61 – 90 days	365	13
91 – 180 days	22	1,832
Over 180 days	–	245
	<u>2,703</u>	<u>7,619</u>
Trade and notes receivables	<u><u>81,151</u></u>	<u><u>98,244</u></u>

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

12. 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 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
Trade payables		
0 – 30 days	137,910	124,475
31– 60 days	2,905	3,144
61– 90 days	1,348	4,844
Over 90 days	<u>50,667</u>	<u>46,027</u>
	<u>192,830</u>	<u>178,490</u>
Notes payables		
0 – 30 days	9,787	40,362
31 – 60 days	2,698	–
61 – 90 days	<u>5,782</u>	<u>–</u>
	<u>18,267</u>	<u>40,362</u>
Trade and notes payables	<u><u>211,097</u></u>	<u><u>218,852</u></u>

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to the shareholders of the Company (“Shareholders”) for 1H-2022.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the Spring of 2022, the raging COVID-19 mutant strain broke out in different places in mainland China, with Shanghai bearing the brunt of it. The entire city implemented the “static management”. For more than two months, the city’s residents stayed at home, people flow and logistics traffic were stopped, and so were all industrial and commercial activities. It takes one to be in Shanghai to fully understand how tough it was for more than 20 million people there to fight the battle against COVID-19. As the Group’s headquarters, R&D centres and main production plants are all located in Shanghai, the impact on it was particularly severe. At the same time, the Group’s R&D centres and factories in other regions were not spared either. They were either directly or indirectly affected by the pandemic and their businesses could not therefore be operated as usual. In 1H-2022, the Group realised revenue of HK\$278.3 million, which was 27.6% less than the same period last year. Gross profit was HK\$11.0 million, which was 82.3% less than the same period last year.

In the face of the long-term closed management, the Group responded quickly and tried every possible means, such as using online tools and various IT tactics to implement the “work-from-home + closed-loop production” model in order to save itself and minimise as much as possible the impacts of the “standstill” and “silence”. However, our remedial measures were all in vain in the face of the difficulties brought by the one-size-fits-all closed management. Thus, the Group recorded an unprecedentedly severe loss in 1H-2022.

Handsets and IOT terminals business

This business is the most predominant business segment of the Group. In 1H-2022, it realised revenue of HK\$233.5 million, which was 24.2% less than the same period last year. Gross loss amounted to HK\$1.4 million (1H-2021: gross profit of HK\$31.2 million). Most deliveries made by the Group to customers during the reporting period originated from orders not executed or completed in the previous year. Due to factors like the stagnation of the transportation system, the abnormal supply of materials, the inability to communicate with upstream and downstream partners face-to-face and low efficiency resulted from working from home, the R&D work of the Group’s projects fell seriously behind. Production and deliveries of both new and the existing projects were also very much delayed. Projects with deliveries originally scheduled to be made in 1H-2022 were generally postponed to the second half of 2022. At the same time, in 1H-2022, the Group had to bear all its fixed costs as usual whilst its factories suspended their operations for a long period of time. As a result, the revenue and gross profit of the business segment declined, and the segment suffered serious loss. With Shanghai vigorously promoting the gradual resumption of work and production in June 2022, except for communication with domestic and overseas upstream and downstream partners, which is still restricted, the Group’s R&D, production and delivery capabilities have basically restored. It is expected that the revenue and gross

profit of the segment will improve in the second half of 2022 gradually. As for the speed and magnitude of the improvement, they will still largely depend on the development of the pandemic and the domestic and international economic environment trends.

To cope with the severe global economic environment, the management adjusted the Group's management structure in a timely manner, optimized human resources allocation in various departments, and improved management efficiency while reducing costs. In the second half of 2022, the Group will focus on assuring the production and deliveries of the existing smart terminals and smart wearable products, as well as accelerating the R&D and promotion of new products, such as the central control system of two-wheeled electric vehicles. The Group will strive to achieve revenue and gross profit growth in the second half of 2022.

EMS business

In 1H-2022, the electronics manufacturing services business (EMS) recorded sales revenue of HK\$17.8 million, a 61.0% decrease when compared with the same period last year. Gross loss amounted to HK\$12.4 million (1H-2021: gross profit of HK\$1.5 million).

Due to the impact of the pandemic, the EMS factories were closed for a long period of time. In addition, orders from two major EMS business customers declined to varying degrees during the reporting period, the business segment's revenue reduced by more than half. Thus, the gross profit of the segment turned from a reasonable profit into a severe loss. Due to the cliff-like drop in customer orders, the Shenyang factory has begun to deploy for a change in its business model, cut redundant staff and production lines, and take the initiative to contact other customers in the field with the aim of exploring new cooperation opportunities. The factories in Shanghai and Tongcheng will continue to step up investment in digitalization and the use of smart technologies in their production process, reduce labor costs, improve production efficiency, secure new customers, and strive for the EMS business to return to profitability in the future.

Property management

In 1H-2022, 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 89,000 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-2022 amounted to HK\$27.0 million (1H-2021: HK\$30.6 million) with a gross profit margin of 92.2% (1H-2021: 96.7%).

Prospects

Although the Group incurred an unprecedented loss in 1H-2022, it still maintains an excellent R&D, marketing and management team, with many competitive products and technologies accumulated over many years. It also has a group of high-quality key customers and unexecuted contracts of considerable value. The management remains confident about the future of the Group. In the face of such severe situations, the Group is reviewing the safety bottom lines it has set for unexpected and irregular situations and improving its ability to predict and respond to major risks. The Group will act pragmatically, revise its development strategies and directions, further optimise its management structure and existing business layout, as well as accelerate the expansion of new businesses and overseas markets.

2022 is destined to be an extraordinary year full of uncertainties. In any case, the Group, together with its staff, will make concerted and all-out efforts to overcome difficulties and turn losses into profits as soon as possible.

FINANCIAL REVIEW

For 1H-2022, the revenue of the Group was HK\$278.3 million (1H-2021: HK\$384.5 million), in which the revenue from handsets and IOT terminals business and EMS business (“**Core Business**”) decreased by 29.0% to HK\$251.3 million (1H-2021: HK\$353.9 million) as compared with that of 1H-2021. In 1H-2022, the revenue from property management (“**Non-core Business**”) decreased by 11.7% to HK\$27.0 million (1H-2021: HK\$30.6 million) as compared with that in 1H-2021.

The gross loss for 1H-2022 for the Core Business of the Group was HK\$13.8 million (1H-2021: gross profit HK\$32.7 million). The gross loss margin for the Core Business was 5.5% (1H-2021: gross profit margin 9.3%) and the gross profit margin for the Non-core Business decreased to 92.2% (1H-2021: 96.7%). The overall gross profit margin of the Group for 1H-2022 decreased to 4.0% (1H-2021: 16.2%).

The Group recorded a loss attributable to owners of the Company of HK\$324.9 million (1H-2021: HK\$60.5 million). The basic loss per share for 1H-2022 was HK14.7 cents (1H-2021: HK2.6 cents). Such increase in loss was mainly attributable to the following factors:

One of the reasons for the significant increase in loss was the mandatory restrictions imposed in parts of the PRC (especially Shanghai) to combat the coronavirus disease (COVID-19) pandemic since mid-March 2022, which had affected the Group’s deliveries. Given that the Group’s headquarter is situated in Shanghai, the effect was relatively substantial. Failure to reach the expected levels of turnover and average gross profit margin in 1H-2022, the increase in R&D expenses, selling and distribution costs and administrative expenses, and fluctuations in the exchange rate of RMB against US dollars (exchange rate loss of around HK\$30.3 million) caused the significant increase in loss.

In 2021, the new management team formulated a very aggressive development plan that the Group's business had to grow rapidly in the next few years. To this end, the Group has increased investment in human resources, and has recruited many highly professional and experienced talents from the industry to enrich the management and various departments of the Group since 2021. At the same time, in order to adapt to the reality of the soaring cost of high-tech talents in mainland China, the Group increased the salary and bonuses of some existing employees to increase their sense of belonging and motivation to the Group, so that they can strive to create more profits for the Group. As a result, R&D expenses, selling and distribution costs and administrative expenses in 1H-2022 increased significantly as compared to 1H-2021. In order to cope with the severe situation of the global economy, the management of the Group has adjusted the management structure timely and optimized the allocation of human resources in various departments to reduce costs and improve management efficiency at the same time.

In addition, the Board concluded there was indication for impairment in long-term assets of the handsets and IOT terminal business and EMS business. Impairment loss on the relevant intangible assets, properties, plants and equipment and right-of-use assets relating to handsets and IOT terminals business of around HK\$76.9 million and certain receivables of around HK\$12.8 million were made in 1H-2022 after conducting impairment assessment on these assets. These also caused the significant increase in loss.

Segment results of core business

	Six months ended 30 June 2022			Six months ended 30 June 2021		
	Revenue <i>HK\$'M</i>	Gross loss <i>HK\$'M</i>	Gross loss margin %	Revenue <i>HK\$'M</i>	Gross profit <i>HK\$'M</i>	Gross profit margin %
Handsets and IOT terminals business	233.5	(1.4)	(0.6)	308.3	31.2	10.1
EMS business	17.8	(12.4)	(69.5)	45.6	1.5	3.4
Total	<u>251.3</u>	<u>(13.8)</u>	<u>(5.5)</u>	<u>353.9</u>	<u>32.7</u>	<u>9.3</u>

Handsets and IOT terminals business

Due to the “static management” of Shanghai which lasted for more than two weeks, the stagnation of the transportation system, the abnormal supply of materials, the inability to communicate with upstream and downstream partners face-to-face and low efficiency resulted from working from home, the R&D work of the Group's projects fell seriously behind. Production and deliveries of both new and the existing projects were also very much delayed. The revenue of this segment for 1H-2022 decreased by 24.2% to HK\$233.5 million (1H-2021: HK\$308.3 million) as compared to that of 1H-2021. The gross loss margin recorded for this segment was 0.6% in 1H-2022 (1H-2021: gross profit margin 10.1%). The revenue of ODM business accounted for approximately 89% of the revenue of this segment in 1H-2022 (1H-2021: 94%).

EMS business

Due to the impact of the pandemic, the EMS factories were closed for a long period of time. In addition, orders from two major EMS business customers declined to varying degrees during the reporting period, revenue of this segment decreased by 61.0% to HK\$17.8 million and recorded a gross loss margin of 69.5% at the same time (1H-2021: gross profit margin 3.4%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 June 2022, the Group had bank balances and cash of HK\$187.9 million (31 December 2021: HK\$322.3 million), of which 15.2% was held in US dollars, 81.6% was held in Renminbi and the remaining balance was held in Hong Kong dollars, and short-term deposits of HK\$301.9 million (31 December 2021: \$353.2 million) among which 71.3% was held in US dollars and 28.7% was held in Renminbi. As at 30 June 2022, the Group also had pledged bank deposits of HK\$38.3 million (31 December 2021: HK\$16.1 million) in Renminbi for the purpose of the Group's borrowings. The Group intends to finance its working capital and capital expenditure plans from such bank balances. The Group has pledged certain bank deposits to secure the bank borrowings. The total bank borrowings of the Group amounted to HK\$133.2 million as at 30 June 2022 (31 December 2021: HK\$41.9 million), of which 76.4% was denominated in Renminbi and 23.6% was denominated in US dollars. All of the bank borrowings were at floating interest rates and repayable within one year.

Operating Efficiency

The respective turnover period of inventory, trade and notes receivables, trade and notes payables of the Group for the Core Business is presented below:

	30 June 2022	31 December 2021
	<i>Days</i>	<i>Days</i>
Inventory turnover period	183	116
Trade and notes receivables turnover period	59	49
Trade and notes payables turnover period	212	128

The Group's deliveries were affected by the COVID-19 pandemic, the inventory turnover period for 1H-2022 increased as compared to that of year 2021.

As affected by the COVID-19 pandemic, the repayment schedules of certain accounts receivable in 1H-2022 were delayed as compared to that of year 2021. As a result, the trade and note receivable turnover period for 1H-2022 increased as compared to that of year 2021.

As affected by the COVID-19 pandemic, the repayment schedules of certain accounts payable in 1H-2022 were delayed as compared to that of year 2021. As a result, the trade and notes payables turnover period for 1H-2022 increased as compared to that of year 2021.

As at 30 June 2022, the current ratio, calculated as current assets over current liabilities, was 2.0 times (31 December 2021: 2.6 times).

The Group reckons that inventory turnover period, trade and notes receivables turnover period, and trade and notes payables turnover period help the Group 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-2022, 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 2022, the Company had 2,238,547,300 ordinary shares of HK\$0.10 each in issue.

In 1H-2022, the Company issued 1,050,000 ordinary shares of HK\$0.10 each due to the exercise of share options by an employee of the Company.

Save as disclosed above, no shares of the Company were issued during 1H-2022.

GEARING RATIO

As at 30 June 2022, the total assets of the Group were HK\$2,215.3 million (31 December 2021: HK\$2,583.2 million) and the bank borrowings were HK\$133.2 million (31 December 2021: HK\$41.9 million). The gearing ratio of the Group, calculated as total bank borrowings over total assets, was 6.0% (31 December 2021: 1.6%).

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.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During 1H-2022, the Group did not have any material acquisition or disposal of subsidiaries or associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENT

As stated in the announcement of the Company dated 26 January 2021, the Group entered into a framework agreement with the People's Government of Huangjiang Town, Dongguan, to signify to Group's intention to invest an aggregate amount of RMB2.0 billion to develop the Group's own technological industrial park in Huangjiang Town, Dongguan, thereby consolidating the Group's operations and maximizing its development potential. It is expected that the Group will invest RMB1.0 billion in fixed asset investment and the remaining RMB1.0 billion for operating cashflow.

Save as disclosed above, the Group did not have any future plans for material investment or capital assets during 1H-2022.

SIGNIFICANT INVESTMENT

As at 30 June 2022, the Group did not have any significant investment.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities.

EMPLOYEES

As at 30 June 2022, the Group had approximately 1,169 (31 December 2021: 1,651) employees. The Group operates a Mandatory Provident Fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC. The Group has a comprehensive training system in place that establishes a network-based career path for employees, including position and ability management, skills enhancement programme, various training opportunities, online learning programme for staff, internal promotion system, key employees development programme, succession plans for key positions and leadership development programme. The Group also offers discretionary bonuses and may grant share options under the share option scheme and share awards under the share award scheme of the Company to its employees by reference to individual performance and the performance of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the 6 months ended 30 June 2022, the Company repurchased 30,594,000 shares of the Company on the Stock Exchange and the shares repurchased were cancelled immediately. Details of the repurchase are as follows:

Month of repurchase	Number of shares repurchased '000	Price per share		Aggregate price paid (inclusive of related expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2022	20,648	0.480	0.455	9,685
May 2022	3,260	0.320	0.290	1,006
June 2022	6,686	0.370	0.330	2,397
	<u>30,594</u>			<u>13,088</u>

Other than the shares 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-2022.

EVENT AFTER THE REPORTING PERIOD

There have been no significant events of the Group occurred since the end of 1H-2022.

CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions laid down in the Corporate Governance Code ("Corporate Governance Code") as set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for 1H-2022.

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 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-2022.

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-2022. In addition, the unaudited condensed consolidated interim financial information of the Group for 1H-2022 has been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu. The Audit Committee comprises all three independent non-executive Directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement has been published on the respective websites of the Company (www.sim.com) and the Stock Exchange (www.hkexnews.hk). The 2022 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, Mr Liu Jun, Mr Zhu Wenhui and Mr Gao Jun, the non-executive director of the Company is Mr Wong Hei, Simon and the independent non-executive directors of the Company are Mr Liu Hing Hung, Mr Wu Zhe and Mr Li Minbo.

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.

31 August 2022

* For identification purposes only