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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in SIM Technology Group Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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SIM Technology

SIM Technology Group Limited

晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2000)

**(1) MAJOR TRANSACTION
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company



A notice convening the SGM to be held at 24th Floor, Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong on Tuesday, 13 February 2018 at 10:00 a.m. is set out on pages SGM-1 and SGM-2 of this circular. A form of proxy for use at the SGM is enclosed herewith. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sim.com), respectively.

Whether or not you are able to attend the SGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong at Unit 2908, 29th Floor, 248 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time fixed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

* *For identification purposes only*

18 January 2018

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Amount for the Loss of the Goods”	the estimated maximum amount for the loss of the parts and materials relating to wireless communication modules, and the related semi-finished products which have not been used or sold before Completion as referred to in paragraph headed “Other terms” in paragraph 2.1 of this circular
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“China Alliance” or “Valuer”	China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司), the independent valuer appointed by the Company in respect of the valuation of the IP Assets
“CIMB” or “Financial Adviser”	CIMB Securities Limited, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
“Company”	SIM Technology Group Limited (晨訊科技集團有限公司*), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Target Companies under the Sale and Purchase Agreement
“Completion Date”	the date of approval and registration of the transfer of the Target Companies as contemplated under the Sale and Purchase Agreement by the PRC Administration for Industry and Commerce
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the Share Consideration and the Intellectual Property Consideration
“controlling shareholders”	has the meaning ascribed to it under the Listing Rules
“Deloitte” or “Auditor”	Deloitte Touche Tohmatsu, certified public accountants and the auditors of the Company

DEFINITIONS

“Deposit”	the deposit of 10% of the Share Consideration
“Directors”	the directors of the Company
“EMS”	electronic manufacturing services
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party/Parties”	a person or persons who is or are independent of, and not connected with, any directors, chief executive or substantial shareholders (within the meaning under the Listing Rules) of the Company or any of its subsidiaries or any of their respective associate(s) (within the meaning under the Listing Rules)
“Info Dynasty”	Info Dynasty Limited, a company incorporated in the BVI and more than one-third of the voting power of Info Dynasty is controlled by Mr Wong Cho Tung and more than one-third of the voting power of Info Dynasty is controlled by Ms Yeung Man Ying
“Intellectual Property Consideration”	the consideration for the IP Transfer
“Intellipower”	Intellipower Investments Limited, a company incorporated in the BVI and is 25% owned by each of Mr Wong Cho Tung, Ms Yeung Man Ying and their two sons including Mr Simon Wong
“IP Assets”	the patents and three trademarks to be transferred under the Sale and Purchase Agreement
“IP Transfer”	the transfer of the IP Assets as contemplated under the Sale and Purchase Agreement
“Latest Practicable Date”	12 January 2018, being the latest practicable date for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Max Vision”	Max Vision Limited, a subsidiary of the Company
“Mr Simon Wong”	Mr Wong Hei, Simon, one of the sons of Mr Wong Cho Tung and Ms Yeung Man Ying
“OBM”	original brand manufacturers
“percentage ratio”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China
“Properties”	6/F and a portion of 7/F, Building B, SIM Technology Building, No. 633 Jinzhong Road, Changning District, Shanghai, the PRC (中國上海市長寧區金鐘路633號B樓第六層整層及第七層部分)
“Queclink Wireless”	上海移為通信技術股份有限公司 (Queclink Wireless Solutions Co., Ltd.*), a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300590.SZ)
“Richjoy”	Richjoy Talent Limited (日領有限公司), a company incorporated in Hong Kong and is wholly-owned by Mr Simon Wong
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 December 2017 entered into between the Company, Simcom International, Shenzhen Sunsea and the Target Companies in respect of the Transaction and the IP Transfer
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held to consider, and, if thought fit, approve, the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer)
“Shanghai Simcom”	Shanghai Simcom Limited (希姆通信息技術(上海)有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Shanghai SIM Technology”	Shanghai SIM Technology Limited (晨訊科技(上海)有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Shanghai Sunrise”	Shanghai Sunrise Simcom Limited (上海晨興希姆通電子科技有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Share Consideration”	the consideration for the sale and purchase of the Target Companies under the Sale and Purchase Agreement
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Shenyang SIM”	Shenyang SIM Simcom Technology Limited (瀋陽晨訊希姆通科技有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Shenzhen Sunsea”	深圳日海通訊技術股份有限公司 (Shenzhen Sunsea Communication Technology Co., Ltd.*), a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002313.SZ)
“Simcom (BVI)”	Simcom (BVI) Limited, a company incorporated in the BVI and is wholly-owned by Mr Wong Cho Tung
“Simcom Electronic”	Shanghai Simcom Electronic Limited (上海芯通電子有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“Simcom International”	Simcom International Holdings Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“Simcom Wireless”	Shanghai Simcom Wireless Solutions Limited (芯訊通無線科技(上海)有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Supply Contract”	the supply contract dated 21 December 2017 entered into between Shenyang SIM, Simcom Electronic and Shenzhen Sunsea in respect of the procurement of parts and materials and the production of wireless communication modules
“Target Companies”	Simcom Electronic and Simcom Wireless
“Tenancy Agreement”	the tenancy agreement dated 21 December 2017 entered into between Shanghai SIM Technology and Simcom Electronic in respect of the leasing of the Properties
“Transaction”	the sale and purchase of the Target Companies under the Sale and Purchase Agreement
“u-blox AG”	u-blox AG, a company incorporated and existing in Switzerland, an Independent Third Party
“Valuation Report”	the valuation report prepared by the Valuer on the IP Assets as at 30 November 2017, the text of which is set out in Appendix II to this circular
“Wireless Communication Modules Business”	the wireless communication modules business operated by the Group, comprising the 2G, 3G, 4G wireless communication modules and GNSS module business
“%”	per cent

For the purpose of this circular, the exchange rate of RMB1.00 to HK\$1.18 has been used, where applicable, for illustrative purposes only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date.

LETTER FROM THE BOARD



SIM Technology

SIM Technology Group Limited

晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2000)

Executive Directors:

Ms Yeung Man Ying (*Chairman*)

Mr Wong Cho Tung

Ms Tang Rongrong

Mr Chan Tat Wing, Richard

Mr Liu Jun (*Chief Executive Officer*)

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Mr Liu Hing Hung

Mr Wang Tianmiao

Mr Wu Zhe

*Head office and principal place of business
in Hong Kong:*

Unit 2908, 29th Floor

248 Queen's Road East

Wanchai

Hong Kong

18 January 2018

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

1. INTRODUCTION

Reference is made to the announcement of the Company dated 21 December 2017 in relation to the Sale and Purchase Agreement, the Supply Contract and the Tenancy Agreement. The purpose of this circular is (1) to provide you with information in respect of the resolutions to be proposed at the SGM regarding the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer); and (2) to give you notice of the SGM.

* *For identification purposes only*

LETTER FROM THE BOARD

2. THE SALE AND PURCHASE AGREEMENT

2.1 Principal terms of the Sale and Purchase Agreement

On 21 December 2017 (after trading hours), the Company, Simcom International, Shenzhen Sunsea and the Target Companies entered into the Sale and Purchase Agreement under which Simcom International has conditionally agreed to sell, and Shenzhen Sunsea has conditionally agreed to purchase, 100% of the equity interest of Simcom Wireless.

The principal terms of the Sale and Purchase Agreement are set out below:

Date:

21 December 2017

Parties:

- (1) the Company
- (2) Simcom International (as seller)
- (3) Shenzhen Sunsea (as buyer)
- (4) the Target Companies

Assets to be disposed of and consideration:

Simcom International has conditionally agreed to sell, and Shenzhen Sunsea has conditionally agreed to purchase, 100% of the equity interest of Simcom Wireless. Shenzhen Sunsea may designate its wholly-owned entity/entities of Shenzhen Sunsea as agreed by the Company and Simcom International in writing to be the ultimate buyer of the Target Companies. Before Completion, all the equity interest in Simcom Electronic will be transferred by Simcom International to Simcom Wireless so that Shenzhen Sunsea can acquire the Target Companies through the acquisition and holding of the direct interest in a single entity, being Simcom Wireless.

Under the Sale and Purchase Agreement, the Company has conditionally agreed to procure that the IP Assets (being certain patents owned by Shanghai Simcom and Shanghai Sunrise and three trademarks owned by Shanghai Simcom) shall be transferred to Simcom Wireless before Completion.

For details of the IP Assets, please refer to Appendix II to this circular.

LETTER FROM THE BOARD

The total Consideration is RMB608 million (equivalent to approximately HK\$717.4 million) which comprises (1) the Share Consideration; and (2) the Intellectual Property Consideration. The Intellectual Property Consideration has already been paid in November 2017 to Shanghai Simcom and Shanghai Sunrise by Simcom Wireless.

The Share Consideration is RMB518 million (equivalent to approximately HK\$611.2 million) which was determined after an arm's length negotiation with reference to, among other things, (1) the net asset value of the Target Companies as at 30 June 2017; (2) the purchase price of the Wireless Communication Modules Business to be disposed of under the technology assignment contract and the asset purchase agreement as referred to in the Company's circular dated 28 February 2017; and (3) the current operations and business prospects of the Wireless Communication Modules Business.

The above factors considered by the Directors in determining the Share Consideration are further elaborated below:

- (a) Net asset value : Net asset value is one of the factors that is commonly used to determine whether the purchase price is fair. It is a fundamental factor that the Directors have made reference to when determining the fairness of the Share Consideration because the Share Consideration should be higher than the net asset value of the Target Companies. As at 30 June 2017, the aggregate unaudited net asset value of the Target Companies amounted to approximately HK\$154.6 million.

- (b) Purchase price offered by u-blox AG : Although the equity interest of the Target Companies is the subject matter under the Sale and Purchase Agreement, the nature of the underlying assets and businesses of the Target Companies is substantially the same as that under the technology assignment agreement and asset purchase agreement with u-blox AG as disclosed in the Company's circular dated 28 February 2017.

LETTER FROM THE BOARD

The proposed disposal of the assets and businesses to u-blox AG was at a valuation of price-earnings (P/E) ratio of 6.4 times (calculated by reference to the consideration for the disposal of approximately HK\$409.5 million and the profit of the Wireless Communication Modules Business of approximately HK\$64.0 million for the year ended 31 December 2016). The Transaction and the IP Transfer are at a valuation of P/E ratio of 11.2 times (calculated by reference to the Consideration of approximately HK\$717.4 million and the profit of the Wireless Communication Modules Business of approximately HK\$64.0 million for the year ended 31 December 2016).

The Directors consider that the reference to the amount of consideration for the proposed disposal of the assets and businesses to u-blox AG represented a comparison to a recent transaction based on P/E ratios. The Directors further consider that the amount of consideration for the proposed disposal of the assets and businesses to u-blox AG is still relevant because (i) u-blox AG is an Independent Third Party and the nature of the underlying assets and businesses subject to the disposal is substantially the same, and (ii) the agreements for the disposal to u-blox AG were signed recently on 20 January 2017. The Directors are of the view that the amount of the consideration offered by u-blox AG is a fair indication of the price offered by an independent and willing buyer of substantially the same nature of assets and businesses and is relevant for the determination of fairness of the Consideration.

The Directors have not made reference to the price-earnings (P/E) ratios of technology companies listed on the Shenzhen or Shanghai stock exchange because those companies listed in the stock exchanges in the PRC generally trade at higher P/E ratios than those companies listed on the Stock Exchange.

LETTER FROM THE BOARD

- (c) Current operations and business prospects : Although the Group's sales of 2G modules in the six months ended 30 June 2017 have increased rapidly (which have been taken into account by the Directors when the Sale and Purchase Agreement was entered into) due to the rapid expansion of the bike sharing market, the gross profit of such products was low and is expected to remain low. The Directors consider that a higher profit margin will be achieved if the use of wireless communication module technologies are associated with the IoT (internet of things) and industrial terminals applications developed by the Group but not on IoT and industrial terminals applications developed by third parties (such as the bike sharing applications).

For further details, please refer to the paragraph headed "Reasons for and benefits of the Transaction" in this circular.

The parties agree that (1) the Deposit shall be payable within ten days after the signing date of the Sale and Purchase Agreement to a bank account designated by Simcom International, which will be transferred to a bank account held by Shenzhen Sunsea and under the joint control of Simcom International, the Company and Shenzhen Sunsea before the payment of the second instalment in (2) below is made; (2) 80% of the Share Consideration (which includes the Deposit) shall be payable within 10 days after the Completion Date from the bank account held by Shenzhen Sunsea and under the joint control of Simcom International, the Company and Shenzhen Sunsea; and (3) 20% of the Share Consideration shall be payable within 270 days after the Completion Date.

The Intellectual Property Consideration is RMB90 million (equivalent to approximately HK\$106.2 million) which was determined after an arm's length negotiation with reference to the valuation of the IP Assets prepared by the Valuer as at 30 November 2017.

For details of the basis and assumptions adopted in the valuation of the IP Assets, please refer to the paragraphs headed "VI. Valuation Basis" and "IX. Assumptions of Valuation" in Appendix II to this circular.

The income method is adopted for the valuation of the IP Assets because the value of the IP Assets (being intangible assets) reflects the expected income of the IP Assets during the service life discounted to its present value. Having considered that the income method takes into account the analysis of the technology and the operating model in the future, and the methodology explained above, the Directors consider that the use of the income method for the valuation of the IP Assets is fair and reasonable. For details of the valuation methodology, please refer to the paragraph headed "VII. Valuation Methodology" in Appendix II to this circular.

LETTER FROM THE BOARD

Effective date and conditions:

The effectiveness of the Sale and Purchase Agreement is subject to the satisfaction of the following conditions:

- (1) the obtaining of all the internal approvals of the Transaction by Shenzhen Sunsea (including approvals by its board of directors and shareholders);
- (2) the obtaining of all the internal approvals of the Transaction by Simcom International (including approvals by its board of directors and shareholders);
- (3) the obtaining of all the internal approvals of the Transaction by the Company (including approvals by its board of directors and shareholders);
- (4) the obtaining of the approvals of the Transaction by the shareholders of the Target Companies;
- (5) the obtaining of the approvals of the Transaction by, or the making of the necessary filings with, the relevant PRC authorities; and
- (6) the obtaining of the approval of the Transaction by the Stock Exchange.

If any of the conditions precedent to the effectiveness of the Sale and Purchase Agreement on the part of the Company and Simcom International are not satisfied within 90 days from the signing date of the Sale and Purchase Agreement, Shenzhen Sunsea has the right to terminate the Sale and Purchase Agreement and the Deposit shall be refunded to Shenzhen Sunsea without interest. If any of the conditions precedent to the effectiveness of the Sale and Purchase Agreement on the part of Shenzhen Sunsea are not satisfied within 90 days from the signing date of the Sale and Purchase Agreement, the Company and Simcom International have the right to either (a) require Shenzhen Sunsea to remedy and fulfil the relevant condition(s) precedent or (b) terminate the Sale and Purchase Agreement and the Deposit shall be forfeited.

Completion:

Completion shall take place on a day to be agreed by the parties which is within 30 days after the provision of sufficient information by Shenzhen Sunsea and the satisfaction of the following conditions:

- (1) the satisfaction of the conditions for the Sale and Purchase Agreement becoming effective as mentioned above;
- (2) the Sale and Purchase Agreement not having been terminated under its terms;

LETTER FROM THE BOARD

- (3) Simcom Electronic having been transferred to Simcom Wireless and the registration of the transfer with the relevant PRC Administration for Industry and Commerce having been completed;
- (4) the execution of the agreement for the transfer of the IP Assets and the completion of the transfer or, if the transfer has yet to be completed, the acknowledgement of the acceptance of the transfer applications by the relevant PRC governmental authorities and, under such circumstances, a licence shall be granted to the Target Companies for use of such patents pending completion of the transfer, and the Intellectual Property Consideration has been paid by Simcom Wireless;
- (5) the execution of the Supply Contract and the Supply Contract becoming effective; and
- (6) the acquisition of the assets and assumption of liabilities of the Target Companies (excluding the assets and liabilities relating to the Wireless Communication Modules Business) by the Company or its designated third party at their book value as at 30 June 2017 which have been confirmed by the Company, Simcom International and Shenzhen Sunsea in writing.

The previous similar transaction with Quealink Wireless and Richjoy in respect of the sale and purchase of 100% of the equity interest of Simcom Wireless was terminated on 7 December 2017 since certain key employees refused to execute their employment contracts for a term of not less than three years which was a condition precedent to completion of such transaction. The Sale and Purchase Agreement for the Transaction does not contain a similar condition precedent. The Company has also communicated with the key employees who have signed respective undertakings to continue their employment in Simcom Wireless after the Completion. Since the execution of employment contracts by certain key employees is no longer a condition precedent for the Sale and Purchase Agreement, the Company does not expect that it will encounter the same issue as in the previous similar transaction with Quealink Wireless and Richjoy in fulfilling the conditions precedent for the Sale and Purchase Agreement.

Non-competition:

Each of the Company and Simcom International undertakes that, for a period of five years after the Completion Date, except being appointed by the Target Companies, it shall not, and shall procure that its affiliates shall not, engage in any form and manner in the sale business of the 2G, 3G, 4G wireless communication modules and GNSS modules, nor invest directly or indirectly in any entity which engages in the sale business of such modules, nor solicit the employment of the key employees of the Target Companies.

LETTER FROM THE BOARD

Please refer to the paragraph headed “Reasons for and benefits of the Transaction” for the reasons for the Company to provide the non-competition undertaking.

Other terms:

Under the Sale and Purchase Agreement, the Group is responsible for the loss (if any) of the parts and materials relating to wireless communication modules held by the Group (including the Target Companies) on or before the date of the Sale and Purchase Agreement and those parts and materials ordered on or before the date of the Sale and Purchase Agreement but yet to be delivered on the date of the Sale and Purchase Agreement. This means that the Group is responsible for any parts and materials and backlog (if they have not been used or sold or they become obsolete inventories) on or before the date of the Sale and Purchase Agreement.

In addition, under the Sale and Purchase Agreement, if the parts and materials relating to wireless communication modules, and the related semi-finished products have not been used or sold on the Completion Date, the Group (or its designated third parties) shall purchase from Simcom Electronic such unutilised parts and materials, and semi-finished products at their book value. The aggregate amount for the purchase of such unutilised parts and materials, and semi-finished products is expected to be not more than RMB40 million (equivalent to approximately HK\$47.2 million).

The amount of the cap of RMB40 million was determined by reference to the inventories level and the amount of the parts and materials yet to be delivered as at the end of August 2017 and the estimated consumption level from December 2017 to January 2018 if the Completion is to take place by the end of February 2018. The estimated consumption level was determined based on the consumption level from October to November 2017. Having considered the above basis, the Directors are of the view that the actual amount of the unutilised parts and materials, and semi-finished products is expected to be less than the cap of RMB40 million.

2.2 Effect of the transactions

After Completion, the Target Companies will cease to be subsidiaries of the Company, and their financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

It is estimated that the Group will record an unaudited net gain before taxation of approximately RMB418.2 million (equivalent to approximately HK\$493.5 million) from the transactions contemplated under the Sale and Purchase Agreement (including the IP Transfer), which is calculated with reference to the gross proceeds from the Consideration to be payable to the Group less the unaudited net asset value of the Target Companies as at 30 June 2017 together with the costs related to the transactions contemplated under the Sale and Purchase Agreement (including the IP Transfer).

LETTER FROM THE BOARD

However, the Group may incur other costs in connection with the transactions contemplated under the Sale and Purchase Agreement (including the IP Transfer) which have not been included in the calculation of the unaudited net gain before taxation, including but not limited to loss from unused parts and materials, and semi-finished products as a result of the Transaction, staff related cost and net profit of the Target Companies after 30 June 2017 to Completion Date which belongs to Shenzhen Sunsea. The actual gain or loss as a result of the transactions contemplated under the Sale and Purchase Agreement (including the IP Transfer) to be recorded by the Group is subject to the final audit to be performed by its auditors.

The table below shows the effect of the Transaction and the IP Transfer on the earnings and assets and liabilities of the Group which was determined based on the audited financial statements of the Group for the year ended 31 December 2016 and the unaudited financial statements of the Group as at 30 June 2017, respectively, and prepared in accordance with International Financial Reporting Standards (without taking into account the estimated net gain before taxation from the transactions contemplated under the Sale and Purchase Agreement as disclosed above):

	For the year ended 31 December 2016		
	Before the Completion	After the Completion	Increases/ (Decreases)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Unaudited)	(Unaudited)
Profit before taxation	96,500	44,551	(51,949)

	As at 30 June 2017		
	Before the Completion	After the Completion	Increases/ (Decreases)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Net asset value	2,154,638	2,683,505	528,867

2.3 Use of proceeds

Based on the total Consideration, the Company intends to apply the net proceeds of approximately RMB551.9 million (equivalent to approximately HK\$651.2 million) for the following purposes:

- (1) approximately 30.94% of the net proceeds (approximately HK\$201.5 million) for the purchase of the land for the Group's operations centre in Dongguan, the PRC and the construction of the operations centre, which is expected to (a) house the research and development team, production facilities, logistics facilities, warehouses and sales force of the Group, and (b) enable the Group to excel its growth by utilizing the strengths of lower costs and locations of supplies chains in Dongguan, the PRC;

LETTER FROM THE BOARD

- (2) approximately 17.68% of the net proceeds (approximately HK\$115.1 million) for (a) upgrading the production facilities of the Group in Shanghai and the above operations centre and development of an automated intelligent 3D-warehouse; (b) further implementation of the digitization, networking and intelligent processes by Industry 4.0; and (c) enhancing the competitiveness of the high-end handsets ODM (original design manufacturing) and EMS (electronic manufacturing services) businesses; and
- (3) approximately 51.38% of the net proceeds (approximately HK\$334.6 million) for the payment of a special interim dividend (subject to Completion) and for general working capital. It is expected that approximately 35% of the actual net gain from the transactions contemplated under the Sale and Purchase Agreement will be used for the payment of a special interim dividend and the balance will be used for general working capital. Further details of the amount of the special interim dividend and the record date of the entitlements will be announced by the Company after Completion.

3. INFORMATION ON THE PARTIES

3.1 The Group

The Group is principally engaged in the PRC in (1) the ODM (original design manufacturer) of handsets and intelligent terminals; (2) the design and development, manufacturing and sale of the Group's SIMCom-branded wireless communication modules; (3) intelligent manufacturing business; (4) internet of things business; and (5) property development in a small scale.

3.2 Shenzhen Sunsea

Shenzhen Sunsea is a company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange. It is a national high-tech enterprise specialized in information and communications technology (ICT) and a leading domestic service provider on internet of things (IoT) terminals, Cloud Platform and multi-industry solutions. It provides IoT end-to-end products and operational support service. It is also a leading domestic communication network access provider and communication engineering service provider. Shenzhen Sunsea's shareholder was a potential buyer of Simcom Wireless.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, Shenzhen Sunsea and its ultimate beneficial owners are Independent Third Parties and are not connected persons of the Company.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, Shenzhen Sunsea does not have any prior shareholding or business relationship with any of the connected persons of the Company.

LETTER FROM THE BOARD

4. INFORMATION ON THE TARGET COMPANIES

Set out below is the unaudited financial statements of Simcom Wireless prepared in accordance with International Financial Reporting Standards for each of the two financial years ended 31 December 2015 and 2016:

	For the year ended	
	31 December	
	2016	2015
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Unaudited)
Net profit before tax	23,036	36,123
Net profit after tax	23,036	35,088
	As at 31 December	
	2016	2015
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Unaudited)
Net asset value	146,698	130,726

Set out below is the unaudited financial statements of Simcom Electronic prepared in accordance with International Financial Reporting Standards for each of the two financial years ended 31 December 2015 and 2016:

	For the year ended	
	31 December	
	2016	2015
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Unaudited)
Net loss before tax	1,019	2,565
Net loss after tax	1,019	2,565
	As at 31 December	
	2016	2015
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Unaudited)
Net asset value	1,357	2,461

As at 30 June 2017, the aggregate unaudited net asset value of the Target Companies amounted to approximately HK\$154.6 million.

LETTER FROM THE BOARD

Set out below is a breakdown of the major assets and liabilities of the Target Companies as at 31 December 2015 and 2016 and as at 30 June 2017 based on the financial statements of the Target Companies prepared in accordance with International Financial Reporting Standards:

	Simcom Wireless			Simcom Electronic		
	As at 31 December 2015 <i>(HK\$'000)</i> (Unaudited)	As at 31 December 2016 <i>(HK\$'000)</i> (Unaudited)	As at 30 June 2017 <i>(HK\$'000)</i> (Unaudited)	As at 31 December 2015 <i>(HK\$'000)</i> (Unaudited)	As at 31 December 2016 <i>(HK\$'000)</i> (Unaudited)	As at 30 June 2017 <i>(HK\$'000)</i> (Unaudited)
Major assets:						
Intangible assets	28,449	31,336	34,074	–	–	–
Inventories	–	–	–	–	284,732	243,494
Deposits, prepayments and other receivables	46,956	4,016	5,267	4,535	19,320	20,121
Amounts due from group companies	58,717	111,731	108,740	–	61,004	69,620
Amounts from import and export agent	–	–	–	–	16,250	18,982
Major liabilities:						
Trade payable	–	–	–	–	58,860	150,381
Other creditors and accrued charges	3,141	526	1,558	–	–	–
Amounts due to group companies	–	–	–	2,118	326,272	219,558
Deferred tax liabilities	4,548	4,329	4,440	–	–	–

The segmental results of the Wireless Communication Modules Business for the two years ended 31 December 2016 as extracted from the annual report of the Group for the year ended 31 December 2016 are as follows:

	For the year ended 31 December 2016 <i>HK\$'000</i>	For the year ended 31 December 2015 <i>HK\$'000</i>
Segment revenue	815,016	638,847
Segment profit	63,974	58,567

As at 30 June 2017, although the aggregate unaudited net book value of the IP Assets amounted to nil, the expenses incurred in connection with the research and development of the IP Assets of approximately RMB21.5 million (equivalent to approximately HK\$25.4 million) have been capitalised on the financial statements of the Group.

The value of the IP Assets as assessed by the Valuer appointed by the Company as at 30 November 2017 was approximately RMB88.7 million (equivalent to approximately HK\$104.7 million).

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Simcom Wireless is an indirect wholly-owned subsidiary of the Company and its principal business is the design and research and development of wireless communication modules.

Simcom Electronic is an indirect wholly-owned subsidiary of the Company and its principal business is the procurement, warehousing, logistics and sale of wireless communication modules and related parts.

5. REASONS FOR AND BENEFITS OF THE TRANSACTION

5.1 The current business segments of the Group

The Group has the following business segments:

- Sale of Handsets, Solutions and Intelligent Terminals
- Sale of Wireless Communication Modules
- Internet of Things Business
- Intelligent Manufacturing Business
- Property Development

The Transaction relates to the sale of the Wireless Communication Modules Business of the Group.

5.2 Typical Roles of OBM, ODM, EMS, CM and IDH

The following table illustrates the typical roles of OBM (original brand manufacturers) which are involved in the entire industry chain, ODM (original design manufacturers), EMS (electronics manufacturing services), CM (contract manufacturing) and IDH (independent design houses):

	OBM (which are involved in the entire industry chain)	ODM	EMS	CM	IDH
Sales and marketing	✓	-	-	-	-
R&D	✓	✓	-	-	✓
Procurement	✓	✓	✓	-	-
Production	✓	✓	✓	✓	-

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5.3 Business subject to the Transaction and non-competition undertaking

Under the Sale and Purchase Agreement, effectively, the Wireless Communication Modules Business of the Group is subject to the disposal through the sale of the equity interest in the Target Companies and the IP Transfer.

The Transaction involves the IP Transfer. The IP Assets are important for the business of the Target Companies. Since Shenzhen Sunsea is acquiring the entire equity interest in the Target Companies with the IP Assets, they would not want the Group to set up a competing business after the Transaction. The Directors consider that the request from Shenzhen Sunsea for the non-competition undertaking in the Sale and Purchase Agreement is reasonable.

The non-competition clause in the Sale and Purchase Agreement restricts the Group from engaging in the sales of 2G, 3G and 4G wireless communication modules and GNSS modules (or wireless communication modules) products in the next five years. As understood by the industry, the restriction under the clause applies to the standalone cellular communication modules for 2G, 3G and 4G (“**standalone wireless communication modules**”), which account for substantially all the products of the Target Companies.

The non-competition clause does not restrict the sale, and research and development, of the Group’s other products with wireless communication modules integrated into the products’ motherboards (“**embedded wireless communication modules**”), such as terminal products and module products of the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group. Thus, the Sale of Handsets, Solutions and Intelligent Terminals segment, the Internet of Things Business segment and the Intelligent Manufacturing Business segment of the Group will not be affected by the non-competition clause in the Sale and Purchase Agreement.

The Transaction and the IP Transfer do not relate to the know-how and technologies regarding the production process which remains with the Group. Therefore, the provision of EMS to the Target Companies or other customers after the Completion is not restricted by the non-competition undertaking in the Sale and Purchase Agreement. Having considered the Group’s business strategies in the near future to utilize its resources on the remaining business of the Group (in particular, the business of IoT and industrial terminal market) and the benefits that the Company and the Shareholders will receive as a result of the Transaction as explained below, the Directors consider that the provision of the non-competition undertaking under the Sale and Purchase Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

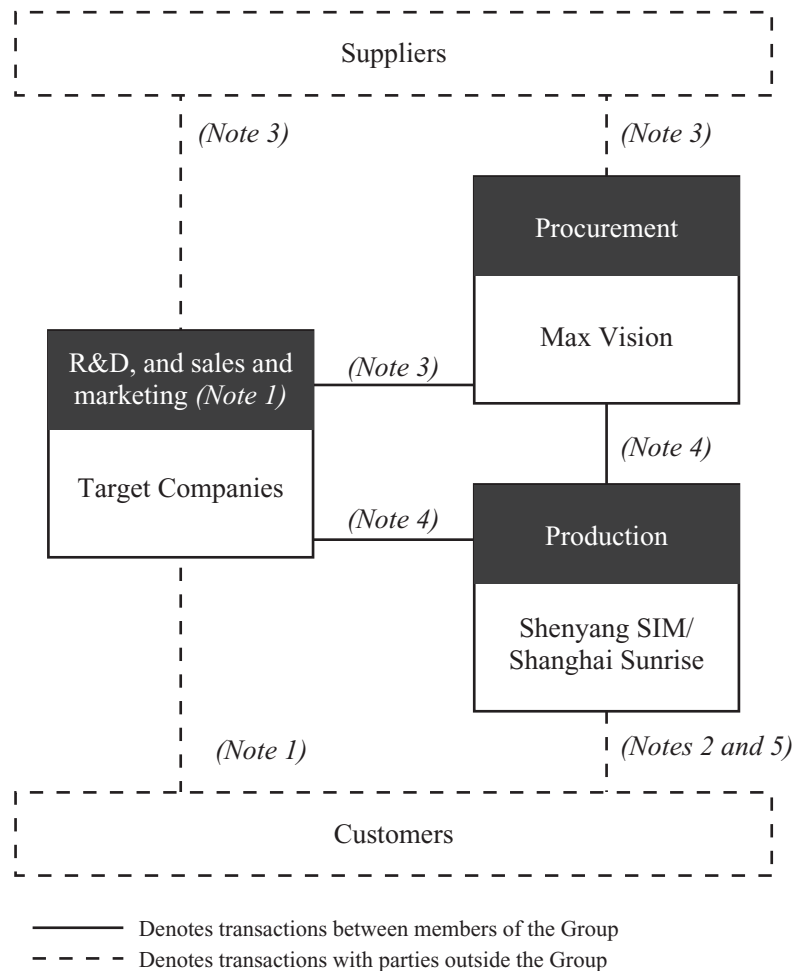
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5.4 Business model of the Group before and after the Transaction

(a) The business model of the Group’s Wireless Communication Modules Business segment

The simplified business model of the Group’s Wireless Communication Modules Business segment before and after the Transaction and the IP Transfer is set out in the charts below:

(i) Before Completion of the Transaction and the IP Transfer:



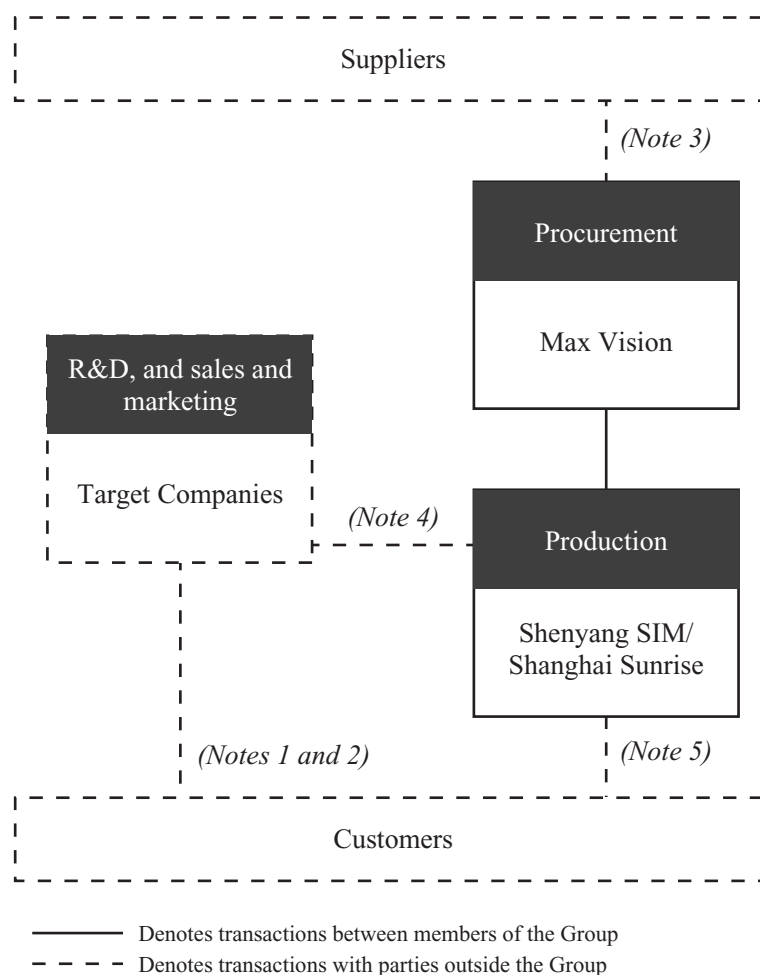
Notes:

- (1) The Target Companies conduct research and development (including product planning and product defining) in respect of technologies and intellectual properties relating to wireless communication modules as well as sales and marketing of wireless communication modules to customers.
- (2) Once the Target Companies have received indicative sales orders from customers, Shenyang SIM will enter into sales contracts on behalf of Simcom Wireless.

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- (3) Simcom Electronic may purchase parts and materials from suppliers and/or instruct Max Vision to purchase parts and materials from suppliers.
- (4) Production instructions are given by Simcom Wireless to Shenyang SIM. Parts and materials are provided by Simcom Electronic and/or Max Vision to Shenyang SIM (or Shanghai Sunrise) which will then manufacture wireless communication modules.
- (5) The finished products are delivered by Shenyang SIM (or Shanghai Sunrise) to customers.

(ii) After Completion of the Transaction and the IP Transfer:



Notes:

- (1) The Target Companies conduct research and development (including product planning and product defining) in respect of technologies and intellectual properties relating to wireless communication modules as well as sales and marketing of wireless communication modules to customers.
- (2) The Target Companies enter into sales contracts with customers.
- (3) Max Vision purchases parts and materials from suppliers.

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- (4) Simcom Electronic places production orders with Shenyang SIM (or Shanghai Sunrise) under the Supply Contract, which will then manufacture wireless communication modules.
- (5) The finished products are delivered by Shenyang SIM (or Shanghai Sunrise) to customers of Simcom Electronic and/or to Simcom Electronic.

The Transaction has the most impact on the standalone wireless communication module products in the Wireless Communication Modules Business segment of the Group.

Prior to the Completion, the Wireless Communication Modules Business segment of the Group covered the entire industry chain of the wireless communication modules operations, from product research and development (including product planning and product defining) (“**R&D**”), material procurement, production processing (including logistics and delivery of finished products) (“**Procurement and Production**”) to sales business (“**Sales Business**”). In particular, the Target Companies, which were the subsidiaries of the Group, undertook R&D and Sales Business with regard to standalone wireless communication modules.

Following the Completion, the Target Companies will continue to take up R&D and Sales Business of the above industry chain.

Pursuant to the Supply Contract, with regard to the Wireless Communication Modules Business segment of the Group, the Group will only be engaged in Procurement and Production. The Target Companies will place orders to purchase finished products of standalone wireless communication modules from Shenyang SIM and provide all the necessary information regarding material procurement and production. Shenyang SIM will delegate Max Vision to procure materials in accordance with the requirements specified by the Target Companies. Shenyang SIM is responsible for the processing and production of finished products and the sales to the Target Companies (including issuing invoices and delivery). The Supply Contract does not stipulate that the Target Companies must place orders with Shenyang SIM. The Group’s intelligent robot manufacturing factories can (1) reduce costs for product testing, labour costs and the total processing costs and (2) avoid human errors in production and, therefore, can improve product quality. However, in view of the distinctive advantages of the Group’s intelligent robot manufacturing factories, the management is confident that the Group will continue to be the EMS supplier in the foreseeable future. It is expected that, following the Transaction, the Wireless Communication Modules Business will remain one of the business segments of the Group and the revenue will not decline significantly as compared to that before the Completion. Nevertheless, with regard to the Wireless Communication Modules Business segment of the Group, the business nature of the Group will change from product-oriented own-branded products manufacturer (“**OBM**”) to service oriented electronic manufacturing services provider (“**EMS**”) with regard to standalone wireless communication modules. The Group presently has no intention to downsize and dispose the remaining

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business and assets of the Group after the Completion. The business strategies of the Group may be subject to changes which depend on the development of the market in the future.

After the Completion, the Group will no longer conduct sales and marketing with regard to standalone wireless communication modules. These activities will be conducted by the Target Companies.

However, after the Completion, the Group will continue to conduct its research and development relating to embedded wireless communication modules of terminal products.

The Group has not provided EMS with regard to wireless communication modules with parties (other than the Target Companies) in the past. After the Completion, customers which request the Group to provide EMS will provide the necessary information and know-how required for the products while the Group offers production services with its own production technologies and know-how. This is in line with the role of an EMS provider in the market in which the necessary information and know-how for the products are provided by customers to EMS providers. The Group can operate and provide EMS to third parties independently from the Target Companies after the Completion.

(b) EMS services

Although the Group has not in the past provided EMS services directly to customers outside the Group, the Group's ODM business for handsets and terminal products involves the provision of design and EMS services within the Group, which enables the Group to provide ODM services to its customers for handsets and terminal products. The provision of ODM services includes the provision of EMS services. As the Group provides ODM services for handsets and terminal products, the Group is also able to provide EMS services directly to customers outside the Group.

The Directors consider that, notwithstanding that, with regard to the Wireless Communication Modules Business, the business model will change from OBM to EMS with regard to standalone wireless communication modules after the Completion, the business model of the Group as a whole remains unchanged.

5.5 Reasons for and benefits of the Transaction

The Directors consider that the competition relating to standalone wireless communication modules will be very intense.

The Directors are of the view that the competition is intense as a result of the low barrier to entry and the market is relatively fragmented and that the competition is also intense for 3G and 4G modules even though the barrier to entry is relatively higher than that for 2G modules.

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As an OBM with regard to standalone wireless communication modules, the Group has to keep inventories for parts and materials according to sales forecast. The Group is, therefore, exposed to significant inventories risks. The Directors consider that it is beneficial to the Shareholders to reduce the inventories risks.

Although the Group's sales of 2G modules in the six months ended 30 June 2017 have increased rapidly (which have been taken into account by the Directors when the Sale and Purchase Agreement was entered into) due to the rapid expansion of the bike sharing market, the gross profit of such products was low and is expected to remain low. The Directors consider that a higher profit margin will be achieved if the use of wireless communication module technologies are associated with the IoT (internet of things) and industrial terminals applications which have been or to be developed by the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group but not on IoT and industrial terminals applications developed by customers (such as the bike sharing applications).

The Group's embedded wireless communication modules used in its terminal products and module products developed by the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group have already been tapped into the IoT and industrial terminals applications.

The Group's embedded wireless communication module technologies have been used in the following business sectors which belong to the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group:

Industry	Products	Features
IOV (Internet of Vehicles) terminal	Car DVR (Digital Video Recorder)	Installed on the windshield of car. The DVR records continually and uploads video automatically.
	HUD (Head Up Display)	Project information on the windshield, so that drivers do not have to look down for information and navigation.
VR/AR	Industrial grade AR goggles for harsh environment	An IP67 waterproof, dust-proof and explosion-proof device with stacking function of real and digital images and full voice control that frees users' hands.
	360-degree shooting handset	Shooting by back and front cameras and splicing 360-degree panorama photos with built-in algorithm.
Logistics	Couriers' scan and pay terminal	Quick QR code scanner for couriers, with mobile payment feature.

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Industry	Products	Features
Security	Police handset	An IP68 waterproof, dust-proof and explosion-proof device with ID card identification and police-use function.
	Law-enforcement DVR	Used by law enforcement officer in prison for taking video continually as evidence.
	Multi-mode digital/ analogue integrated walkie-talkie	Equip original analogue walkie-talkie with multi-mode digital broadband intercom function.
Android smart module	STIB01 Smart Module 3G	An Android smart module with 3G communication function, a core module used in POS/ logistics industrial terminal.
	STIB03 Smart Module 4G	An Android smart module with 4G communication function, used in POS/ logistics industrial terminal.
	STIB05 Smart Module 4G	An Android smart module with 4G communication function, used in POS/ logistics industrial terminal and video multi-media products.
Wearable device	Pet tracking collar	Aiming at the U.S. market with GPS positioning and tracking functions to prevent from losing pet.
	Smart watch/ wristband	With stopwatch, positioning, pedometer and heart rate monitoring functions.
Outdoor industrial terminal	The highest level tri-proof terminal	The highest level IP68 terminal with waterproof, dust-proof and drop-proof features for harsh environment.
Education	The second generation magnifier	Magnifier-shaped device for pre-school education.
	Tablet for student	Student learning tool with Ifdoo Education software installed.
	“Readboy” tablet for student	Student learning tool with education software installed.

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For the financial year ended 31 December 2016 and the six months ended 30 June 2017, the gross profit margin of the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group was 12.4% and 11.1%, respectively. Within the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group, the gross profit margin of the IoT and industrial terminal applications was 16.4% and 15.6% for the same periods, respectively.

The Group's focus on the further R&D on its embedded wireless communication modules and industrial terminals applications will enable the Group to achieve its goal to provide services which will offer a higher profit margin. The Directors consider that it is not necessary to develop the Group's standalone wireless communication modules in order to enable standalone wireless communication modules to be tapped into the IoT and industrial terminal market as well.

In the past five years, following the change in trends, the Group has been committed to shift from the manufacturing industry to the information technology services industry and transform itself from a product-oriented manufacturer to a service-oriented service provider. The Directors are of the view that the Transaction will accelerate the change of the Group from an OBM to an EMS provider with regard to standalone wireless communication modules and that the IoT business of the Group is unaffected by the Transaction.

In addition, although, as explained in the above, certain businesses and products may have been benefited from the development of the IoT and have achieved growth recently, the Directors consider that the Group may be able to obtain a better price for the Transaction before reaching the peak of the business as a result of the intense and increasing competition.

Following the Transaction, with regard to standalone wireless communication modules, it is expected that the Group, as an EMS provider that only provides Procurement and Production, will record a lower gross profit margin as compared to that before the Completion, when it was an OBM that offered own-branded products throughout the whole industry chain.

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Based on the audited financial information of the Group for the year ended 31 December 2016, the turnover, costs of sales, gross profit and profit before taxation of the Group for the same year before and after the Completion (based on the equivalent sales income derived using the Pricing Formula as referred to under the paragraph headed “Price” on page 30 of this circular (“**Equivalent Sales Income**”) (the exchange rate of RMB1.00 to HK\$1.166 used for the audited financial statements of the Group for the year ended 31 December 2016) and the rental income under the Tenancy Agreement) are set out below:

	Before the Completion <i>HK\$'000</i> (Audited)	After the Completion <i>HK\$'000</i> (Unaudited)	Change (%)
Turnover	2,724,390	2,604,830	-4%
Cost of sales	2,322,609	2,286,672	-2%
Gross profit	401,780	318,159	-21%
Gross profit (%)	14.75%	12.21%	
Profit before taxation	96,500	44,551	-54%
Profit before taxation (%)	3.54%	1.71%	

Based on the audited financial information of the Group for the year ended 31 December 2016, the turnover, costs of sales, gross profit and profit before taxation of the Group for the same year before and after the Completion (excluded the Equivalent Sales Income and based on the exchange rate of RMB1.00 to HK\$1.166 used for the audited financial statements of the Group for the year ended 31 December 2016) are set out below:

	Before the Completion <i>HK\$'000</i> (Audited)	After the Completion (excluded Equivalent Sales Income) <i>HK\$'000</i> (Unaudited)	Change (%)
Turnover	2,724,390	1,909,373	-30%
Cost of sales	2,322,609	1,625,988	-30%
Gross profit	401,780	283,386	-29%
Gross profit (%)	14.75%	14.84%	
Profit before taxation	96,500	37,597	-61%
Profit before taxation (%)	3.54%	1.97%	

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After the Completion, the business nature of the Wireless Communication Modules Business segment will change from OBM to EMS, which will enable the Group to continue to utilize its existing production capacity and to avoid its production capacity from being idled. In addition, it will bring revenue and profit to the Group despite that the gross profit margin is expected to decrease. After the Completion, the Group will be able to maintain purchase volume with its suppliers under a number of purchase contracts with suppliers for parts and materials of wireless communication modules and, therefore, strengthen its bargaining power when the Group negotiates purchases of parts and materials for the Group's other businesses.

Taking into account of the business repositioning, in which the Group will not further incur material R&D and marketing expenses related to standalone wireless communication modules and the economic benefits generated as a result of the Transaction, the Board believes that the decrease in its gross profit margin is reasonable.

Based on the financial statements of the Group for the three years ended 31 December 2016, the R&D expenses of the standalone wireless communication modules in the Wireless Communication Modules Business attributed to around 10%, 9% and 14% of the total R&D expenses of the Group, respectively, and that the sales & marketing expenses (that is, the selling and distribution costs as shown in the financial statements for the above years) of the standalone wireless communication modules in the Wireless Communication Modules Business attributed to around 29%, 23% and 17% of the total selling and distribution costs of the Group, respectively. The R&D costs, in terms of cash flow, of the standalone wireless communication modules in the Wireless Communication Modules Business attributed to around 36%, 31% and 24% of the total development costs paid by the Group for the three years ended 31 December 2016.

The gross profit margin of the Sale of Wireless Communication Modules business segment of the Group was approximately 10.0% for the first half of 2017, which is lower than that of the wireless communication modules associated with the Sale of Handsets, Solutions and Intelligent Terminals business segment of the Group of approximately 15.6%. The gross profit margin of the Sale of Wireless Communication Modules business segment of the Group has been reducing from approximately 14.5% in 2016 to approximately 10.0% for the first half of 2017.

The reasons for and benefits of the Transaction are summarised below:

- (1) Competition in the business relating to standalone wireless communication modules will be very intense and the profit margin is expected to remain low. The Group may be able to obtain a better price for the Transaction before reaching the peak of the business as a result of the intense and increasing competition.

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- (2) With regard to standalone wireless communication modules, the business model will be changed from OBM to EMS after the Completion. The Supply Contract will enable the Group to continue to utilize its existing production capacity and avoid its production capacity from being idle. To leave the production capacity from being idle is, in fact, not considered to be in the interests of the Shareholders. In addition, the Supply Contract will bring revenue and profit to the Group. The provision of EMS under the Supply Contract provides an additional stream of income to the Group, which is beneficial to the Shareholders. Also, through the provision of EMS, the Group will be able to maintain purchase volume with its suppliers under a number of purchase contracts with suppliers for parts and materials of wireless communication modules and, therefore, strengthen its bargaining power when the Group negotiates purchase of parts and materials for the Group's other business.
- (3) The business model of the Group as a whole remains unchanged because the Group has provided, and will continue to provide, EMS indirectly with the other members of the Group for handsets.
- (4) The Consideration represents a valuation of P/E ratio at 11.2 times which is higher than the valuation of P/E ratio at 6.4 times with regard to the disposal of the assets and businesses to u-blox AG and the proposed disposal to u-blox AG is a recent transaction and the nature of the underlying assets and businesses subject to the disposal is substantially the same as the Transaction.
- (5) The income method is adopted for the valuation of the IP Assets because the value of the IP Assets (being intangible assets) reflects the expected income of the IP Assets during the service life discounted to its present value. Having considered that the income method takes into account the analysis of the technology and the operating model in the future, and the methodology explained above, the Directors consider that the use of the income method for the valuation of the IP Assets is fair and reasonable.

Having considered the reasons for and benefits of the Transaction as mentioned above, the Board is of the view that the terms of the Sale and Purchase Agreement (including the Consideration and the Amount for the Loss of the Goods) and the transactions contemplated under it (including the IP Transfer) are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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6. THE SUPPLY CONTRACT AND THE TENANCY AGREEMENT

On 21 December 2017 (after trading hours), Shenyang SIM entered into the Supply Contract with Simcon Electronic and Shenzhen Sunsea, and Shanghai SIM Technology entered into the Tenancy Agreement with Simcom Electronic.

6.1 Supply Contract

6.1.1 Principal terms

The principal terms of the Supply Contract are set out below:

Parties	:	Shenyang SIM (as supplier) Simcom Electronic (as customer) Shenzhen Sunsea
Subject matter	:	Simcom Electronic and Shenzhen Sunsea are to appoint Shenyang SIM to procure parts and materials for the manufacture of wireless communication modules, and Shenyang SIM (or other members of the Group) to manufacture wireless communication modules for, and sell them to, Simcom Electronic at the selling prices.
Term	:	three years from the effective date of the Supply Contract
Price	:	The selling prices (DAP delivery at place) of wireless communication modules are based on the following formula (the “ Pricing Formula ”): Selling prices = ((costs of parts and materials × 1.003) + production costs) × 1.05 + royalty

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Where:

- (1) Costs of parts and materials are based on the market prices using openBoM (a bill of materials (BoM) setting out the models of all the parts and materials required and their prices);
- (2) 1.003 represents that parts and materials during the manufacturing process are damaged at the rate of 0.3%;
- (3) Production costs include the depreciation of machines, equipment and manufacturing facilities, labour costs, utilities costs, and auxiliary material costs but exclude molds, clamps, non-standard instruments and equipment, packaging costs, transportation fees, after-sale service costs, and custom taxes;
- (4) 1.05 represents electronic manufacturing services (EMS) at the gross profit margin of 5% which includes net profit from EMS, operation management costs, domestic warehouse and logistics costs, costs of capital, and after-sale service costs but excludes custom inspection and taxes and overseas transportation and insurance premium;
- (5) Royalty: the fee is to be paid by Simcom Electronic to Shenyang SIM (or other member of the Group) first which will then pay to the owner(s) of the royalty or Simcom Electronic is to pay such fee directly to the owner(s) of the royalty.

Placing ordering	:	Not less than 45 days
Minimum amount per order or per type of product	:	5,000 units or not less than RMB0.5 million
Payment term	:	Delivery upon payment or subject to the terms of the relevant order

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6.1.2 Parts and materials under the Supply Contract

Under the Supply Contract, where Shenzhen Sunsea has confirmed the procurement plan, if the parts and materials relating to wireless communication modules ordered by the Group (other than the Target Companies) during the period between the day after the date of the Sale and Purchase Agreement and Completion Date (inclusive of the Completion Date) remain unconsumed within 12 months after the date of the Supply Contract, Simcom Electronic and Shenzhen Sunsea shall be responsible for the loss of such unutilised parts and materials which is determined by reference to the original costs.

In addition, under the Supply Contract, Simcom Electronic and Shenzhen Sunsea shall be responsible for the loss (if any) of any parts and materials relating to wireless communication modules of the Group which are ordered for Simcom Electronic after Completion and remain unutilized, and shall settle the loss within six months which is determined by reference to the original costs.

The selling prices of the wireless communication modules are set essentially on a cost-plus basis. Alike the total costs of manufacturing of other commodities, the total costs of manufacturing of the wireless communication modules mainly comprise the costs of parts and materials (that is, the costs of raw materials), which are subject to damage at the rate of 0.3% during the manufacturing process, as well as the costs of production (that is, item (3) under the Pricing Formula). The Company then applies a gross profit margin of 5% to the aforesaid total manufacturing costs.

Besides, based on the Company's calculations of the expected gross profit margin of the standalone wireless communication modules on the existing relevant data excluding the sales & marketing and R&D expenses, the expected gross profit margin is approximately 4.8%. As the gross profit margin of 5% is a guaranteed profit and it is in the interest of the Shareholders to avoid the production capacity of the Group from being idle, the Company considers that the 5% gross profit margin under the Pricing Formula is fair and reasonable.

6.1.3 Reasons for the Supply Contract

The Board considers that (a) the Supply Contract will enable the Group to continue to utilize its existing production capacity and avoid its production capacity from being idled; (b) the provision of EMS (electronic manufacturing services) will bring revenue and profit to the Group; and (c) through the provision of EMS, the Group will be able to maintain purchase volume with its suppliers under a number of purchase contracts with suppliers for parts and materials of wireless communication modules and, therefore, strengthen its bargaining power when the Group negotiates purchases of parts and materials for the Group's other businesses.

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Although the estimated maximum revenue generated (RMB1.5 billion for 2020) under the Supply Contract accounts for over 60% of the total revenue of the Group in 2016, the Directors are of the view that other factors (such as the number of customers of the Group other than the Target Companies and the growth of the other business segments of the Group) should also be taken into account which indicate these would indeed be a reduction in the reliance on the Target Companies after the Completion. The percentage of the number of customers of the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group to the total number of customers of the Group represented 27%, 15%, 12% and 9% for the three years ended 31 December 2016 and the six months ended 30 June 2017, respectively. The percentage of revenue from the Sale of Handsets, Solutions and Intelligent Terminals segment of the Group to the total revenue of the Group represented 64%, 64%, 47% and 36% for the same periods. The percentage of the number of customers of the IoT (internet of things) business to the total number of customers of the Group has been growing, representing 42%, 53%, 56% and 67% for the three years ended 31 December 2016 and the six months ended 30 June 2017, respectively. The percentage of revenue from the IoT Business segment to the total revenue of the Group has also been growing, representing 3%, 9%, 12% and 11% for the same periods. For the financial year ended 31 December 2016, the Group had over 120 and 580 customers in the Sale of Handsets, Solutions and Intelligent Terminals segment and the Internet of Things Business segment.

With the development of the IoT business, the Directors expect that the Group's IoT business in both the Sale of Handsets, Solutions and Intelligent Terminals segment and the Internet of Things Business segment will continue to grow and this will further diversify the Group's customer base and, hence, reduce the percentage of revenue attributable from the Target Companies after the Completion. When opportunities arise, the Group may provide EMS to other existing or new customers with regard to the Wireless Communication Modules Business. Neither the Supply Contract nor the Sale and Purchase Agreement restricts the Group's ability to provide EMS to other existing or new customers.

The Group currently has not approached, and has not been approached by, any new customers for EMS with regard to standalone wireless communication modules. At present, the Group has not formulated a plan to solicit new customers (or a development plan) for EMS with regard to standalone wireless communication modules. In addition, if the Supply Contract is not renewed after the expiry of the initial three-year term, any idle production capacity resulted may not be shifted to support other business segments of the Group without revamping the production facilities.

The Directors consider that, notwithstanding that, with regard to the Wireless Communication Modules Business, the business model will be changed from OBM to EMS with regard to standalone wireless communication modules after the Completion, the business model of the Group as a whole remains unchanged.

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6.2 Tenancy Agreement

6.2.1 Principal terms

The principal terms of the Tenancy Agreement are set out below:

Parties	:	Shanghai SIM Technology (as landlord) Simcom Electronic (as tenant)
Properties being leased	:	6/F and a portion of 7/F, Building B, SIM Technology Building, No. 633 Jinzhong Road, Changning District, Shanghai, the PRC (中國上海市長寧區金鐘路633號B樓第六層整層及第七層部分)
Area and use	:	2,770.65 sq.m. in total for office use
Tenancy term	:	Effective from 1 January 2018 to 31 December 2020
Rental	:	RMB4.3 per sq.m. per day and the annual rental is calculated based on 365 days a year Annual rental (exclusive of management fee and other utilities charges) is about RMB4,348,535.18 (equivalent to approximately HK\$5,131,271.5)
Rental deposit	:	RMB1,087,133.79, being three months' rental
Management fee deposit	:	RMB207,798.75, being three months' management fee which is calculated based on RMB25 per sq.m. per month
Termination	:	If the tenant is to early terminate the Tenancy Agreement, it has to pay a sum representing three times the amount of the monthly rental. If the landlord is to early terminate the Tenancy Agreement, it has to pay a sum representing the rental deposit.
Rent free period	:	Nil
Other terms	:	Not more than 33 car park units will be available to the employees of the Target Companies. The monthly rental per car park unit is RMB400 which is the same as the amount of rental of car park units for other users in the same building.

LETTER FROM THE BOARD

6.2.2 Reasons for the Tenancy Agreement

The Board considers that the leasing of the Properties under the Tenancy Agreement will provide rental income which is comparable to rental income receivable had the Properties be leased to other third parties and that the Group has to find a replacement tenant if the Group does not continue to lease the Properties to Simcom Electronic.

7. IMPLICATIONS UNDER THE LISTING RULES

As certain percentage ratio(s) under the Listing Rules in respect of the transactions contemplated under the Sale and Purchase Agreement (including the IP Transfer) exceed 25% but are less than 75%, the entering into of the Sale and Purchase Agreement constitutes a major transaction for the Company under the Listing Rules. Therefore, the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer) are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Supply Contract is of a revenue nature in the ordinary and usual course of business of the Company, and does not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

The applicable percentage ratio(s) under the Listing Rules in respect of the Tenancy Agreement are less than 5% and the entering into of the Tenancy Agreement does not constitute a notifiable transaction under Chapter 14 of the Listing Rules. The Company discloses the Supply Contract and the Tenancy Agreement on a voluntary basis to enable the Shareholders to have a full picture on the transactions with Simcom Electronic after the disposal of Simcom Electronic by the Company.

The Board considers that the terms of the Supply Contract are on normal commercial terms and are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

The Board considers that the terms of the Tenancy Agreement are on normal commercial terms and are fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

8. SGM

The SGM will be held at 24th Floor, Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong on Tuesday, 13 February 2018 at 10:00 a.m., at which resolutions will be proposed to seek Shareholders' approval of the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer).

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder as at the Latest Practicable Date is required to abstain from voting under the Listing Rules.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (1) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (2) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, there exists no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the SGM.

You will find enclosed a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the SGM to the Company's principal place of business at Unit 2908, 29th Floor, 248 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

9. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer) are fair and reasonable and the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer) are in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolutions to approve the Sale and Purchase Agreement and the transactions contemplated under it (including the IP Transfer) at the SGM.

10. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

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

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, including the notes thereto, have been disclosed in the following documents, which are incorporated by reference into this circular:

- (i) the annual report of the Company for the year ended 31 December 2014 (pages 67 to 196) published on 29 April 2015 at <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN20150429616.pdf>;
- (ii) the annual report of the Company for the year ended 31 December 2015 (pages 71 to 206) published on 27 April 2016 at <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0427/LTN20160427304.pdf>; and
- (iii) the annual report of the Company for the year ended 31 December 2016 (page 76 to 210) published on 27 April 2017 at <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0427/LTN20170427293.pdf>

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017, including the notes thereto, have been disclosed in the interim report of the Company for the six months ended 30 June 2017 (pages 19 to 51) published on 21 September 2017 at <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0921/LTN20170921299.pdf>, which are incorporated by reference into this circular.

The management discussion and analysis of the Group for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 have been disclosed in the annual reports of the Company for the years ended 31 December 2014 (pages 17 to 31), 31 December 2015 (pages 17 to 31), 31 December 2016 (pages 17 to 29), respectively, which are incorporated by reference into this circular. The management discussion and analysis of the Group for the six months ended 30 June 2017 has been disclosed in the interim report of the Company for the six months ended 30 June 2017 (pages 11 to 18), which are incorporated by reference into this circular.

The said annual reports and interim report of the Company are available on the website of the Company at www.sim.com and the website of the Stock Exchange at www.hkexnews.hk.

2. INDEBTEDNESS STATEMENT

Borrowings

At the close of business on 30 November 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding secured and unguaranteed bank borrowings of approximately HK\$172.9 million.

Securities

The Group's secured and unguaranteed bank loans of approximately HK\$22.4 million were secured by investment properties, property, plant and equipment, and land use rights of the Group.

The Group's secured and unguaranteed discount bills of approximately HK\$150.5 million were secured by bills receivables of the Group.

Other liabilities

At the close of business on 30 November 2017, a subsidiary of the Company had an arrangement with a bank in which approximately HK\$67.5 million of bills receivables issued by another group entity (the "Issuing Subsidiary") through intra-group transactions were discounted to a bank without recourse. The bills remained payable by the Issuing Subsidiary and were classified as other liabilities of the Group as at 30 November 2017.

Contingent liabilities

At the close of business on 30 November 2017, the Group had no material contingent liabilities outstanding.

Disclaimers

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any outstanding debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts and loans, other loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantee or material contingent liabilities, at the close of business on 30 November 2017.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 November 2017. The Directors are not aware of any material changes in the Group's indebtedness and contingent liabilities since the close of business on 30 November 2017.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available resources, cash flows to be generated from the operating activities, the available banking facilities and other borrowing, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016 (being the date to which the latest published audited accounts of the Group have been made up) and up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS

The Group engages in the product research and development (including product planning and product defining) (“**R&D**”), material procurement, production processing (including logistics and delivery of finished products) (“**Procurement and Production**”) and sales business (“**Sales Business**”) of wireless module products which are (i) standalone wireless communication modules (“**standalone wireless communication modules¹**”) for sale to customers in the Group’s Wireless Communication Modules Business segment, and (ii) wireless communication modules integrated into the products’ motherboards (“**embedded wireless communication modules²**”) of the products for sale to customers in the Group’s Sales of Handsets, Solutions and Intelligent Terminals segment, the Internet of Things Business segment and the Intelligent Manufacturing Business segment.

The disposal (“**Disposal**”) of the Wireless Communication Modules Business has the most impact on the standalone wireless communication module products in the Wireless Communication Modules Business segment of the Group. Prior to the Disposal, the Wireless Communication Modules Business of the Group covered the entire industry chain of the wireless modules operations, from R&D, Procurement and Production to Sales Business. In particular, the Target Companies, which were the subsidiaries of the Group, undertook R&D and Sales Business. Following the Completion, the Target Companies will continue to take up R&D and Sales Business of the above industry chain. Pursuant to the Supply Contract, the Group will only be engaged in Procurement and Production. The Target Companies will place orders to purchase finished products of standalone wireless communication modules from Shenyang SIM and provide all the necessary information regarding material procurement and production. Shenyang SIM will delegate Max Vision to procure materials in accordance with the requirements specified by the Target Companies. Shenyang SIM is responsible for the processing and production of finished products and the sales to the Target Companies (including issuing invoices and delivery). The Supply Contract does not stipulate that the Target Companies must place orders with Shenyang SIM. However, in view of the distinctive advantages of the Group’s intelligent robot manufacturing factories, the

1 the standalone cellular communication modules for 2G, 3G and 4G

2 the universal circuits MODEM for cellular wireless communication, and other circuits for different applications are installed

management is confident that the Group will continue to be the EMS supplier in the foreseeable future. It is expected that, following the Disposal, the Wireless Communication Modules Business will remain one of the business segments of the Group and the revenue will not decline significantly as compared to that before the Disposal. Nevertheless, with regard to the Wireless Communication Modules Business, the business nature of the Group with regard to standalone wireless communication modules will change from product-oriented own-branded products manufacturer (“OBM”) to service oriented electronic manufacturing services provider (“EMS”).

Following the Disposal, it is expected that the Group, as an EMS provider in the Wireless Communication Modules Business that only provides Procurement and Production, will record a lower gross profit margin as compared to that before the Disposal, when it was an OBM that offered own-branded products throughout the whole industry chain. Taking into account of the business repositioning, in which the Group will not further incur material R&D and marketing expenses related to the Wireless Communication Modules Business and the economic benefits generated by the Disposal, the Board believes that the decrease in its gross profit margin is reasonable.

The Sale of Handsets, Solutions and Intelligent Terminals segment, the Internet of Things Business segment and the Intelligent Manufacturing Business segment of the Group will not be affected by the non-competition clause in the Sale and Purchase Agreement.

Regarding the Group’s Sale of Handsets, Solutions and Intelligent Terminals segment, the Group will continue to develop and engage in the R&D of appropriate modules specifically for the Sale of Handsets, Solutions and Intelligent Terminals. In terms of market exploration and development, the Group will step up efforts to reach new overseas markets.

The Group’s Internet of Things Business segment mainly comprises the vending machine business, on which the Disposal has no impact. The Group will adhere to the new development plan as disclosed in its Interim Report for the six months end 30 June 2017. The Group is converting its vending machine business into an integrated service platform for mid-to-small-sized vending machine operators and beverage manufacturers. Having reduced the operation scale of directly managed vending machines in the past six months, the cloud-based service platform is dedicated to taking its service capacity (online and offline) to the next level, with a focus on online value-added services. The asset-light strategy is expected to make the most out of the Group’s advantages in terms of IT technologies. The Group can also effectively manage risk for more healthy operation under the asset light model.

The era of IoT has come. The Group will improve the R&D of relevant backstage software for the IoT terminals, so that it can more effectively complement the IoT terminals developed by its handset and mobile terminal segment. The Group expects that its one stop solution (the “**Cloud+Terminals**”) can bring new opportunities to the business of IoT.

Intelligent Manufacturing Business segment is the latest business pursuit of the Group, which has a lot of potential and the Group has dedicated to three of its business units over the past few years. Please refer to interim report for the six months ended 30 June 2017 for detail description of the three business units. The first business unit, mechanical automation,

has already played a pivotal role in handsets manufacturing. The second business unit is committed to develop the optical system products, which have proved their outstanding performance to customers during the long period of customer site testing and evaluation. The products from the third business unit, industry internet intellectual system, have been used in the Group's own factories. All of the three business units will not be affected or restricted by the Sale and Purchase Agreement, and the Disposal will bring more working capitals to the development of the three business units.

Part of the proceeds from the Disposal will be used to construct an operations centre in Dongguan and the Group intends to upgrade the production facilities, the management is positive that the Group will be able to distinguish itself in the intense competition of the IoT terminal market. Meanwhile, the establishment of an operations centre in Dongguan will extend the Group's reach to customers, thereby providing them with better services.

The following is the Valuation Report received from China Alliance in connection with its valuation as at 30 November 2017 of the market value of the IP Assets which has been prepared for the purpose of incorporation in this circular.

ASSETS VALUATION REPORT FROM CHINA ALLIANCE APPRAISAL CO., LTD

北京中同華資產評估有限公司

China Alliance Appraisal Co., Ltd.

18 January 2018

STATEMENT

1. The assets valuation report has been prepared in accordance with the Basic Rules for Assets Appraisal issued by the Ministry of Finance of the People's Republic of China and the Rule of Practicing for Assets Appraisal and the Code of Ethics for Assets Appraisal issued by China Appraisal Society.
2. The Engagement Parties and other users of the valuation report should use the report in compliance with the requirements of relevant laws and administrative rules within the scope of application stated in the report. The assets appraisal firm and assets valuer take no responsibility for any non-compliance of above-mentioned requirements in the use of the valuation report by the Engagement Parties and other users.
3. The assets valuation report can only be used by the Engagement Parties, other users of the report under the assets appraisal engagement contract and users of the report stated in the relevant laws and regulations. Any other institutes and individuals may not use the report.
4. Users of the assets valuation report should understand the valuation conclusion correctly. The conclusion does not represent the realizable value of appraised subject, and shall not be construed as a guarantee for the realizable value of appraised subject.
5. Assets valuation firm and its valuers should comply with relevant laws and regulations and assets valuation standards. They should abide by the principles of independence, objectivity and fairness, and assume responsibility for the assets valuation report in accordance with the laws.
6. Users of the assets valuation report should pay attention to the assumption of the valuation conclusion, special notices and restrictions on the use of the report.

**SUMMARY OF ASSETS VALUATION REPORT OF
THE VALUATION PROJECT IN RELATION TO THE PROPOSED VERIFICATION
OF PART OF THE TRANSFERRED INTANGIBLE ASSETS OF SHANGHAI SIMCOM
LIMITED AND SHANGHAI SUNRISE SIMCOM LIMITED**

China Alliance Valuation Report (2018) No. 060012

Shanghai Simcom Limited and Shanghai Sunrise Simcom Limited:

China Alliance Appraisal Co., Ltd. (hereinafter referred to as “CAA” or “we”) was instructed to assess the market value of the ownership of part of the intangible assets reported on the valuation benchmark date in accordance with the China Assets Valuation Standards and other requirements under relevant laws and regulations, and adhered to the principles of objectivity, independence and impartiality, for the purpose of providing reference for the proposed verification of part of the transferred intangible assets. Following the necessary valuation procedures, our valuer adopted the income approach to assess the market value of the ownership of part of the transferred intangible assets as of the valuation benchmark date (i.e. 30 November 2017) and concluded that the value of such assets to be RMB88.7 million, which comprised ownership of invention patents and utility model patents with an appraised value of RMB4.2 million and ownership of trademarks with an appraised value of RMB84.5 million.

The valuation conclusion represents the market value of the full title of the appraised assets on the valuation benchmark date, without taking into account the impact of outstanding liabilities of the above assets and the pledges and guarantees that may be undertaken by the related assets on the appraised value. All liabilities of the reported assets and any disputes in relation to the title of the reported assets that may arise in the future shall be the responsibility of Shanghai Simcom and Shanghai Sunrise and we do not accept any liabilities thereof.

This valuation report only aims at providing valuation reference for the economic behaviour described herein. The valuation conclusion shall be valid for one year from the valuation benchmark date. In the event that the status of the assets and market conditions change significantly from those as at the valuation benchmark date, the Engagement Parties shall engage the valuer to perform valuation updating or revaluation.

The above content is extracted from the text of the assets valuation report. If you wish to know more about the details of the valuation project and reasonably comprehend the valuation conclusion, you are advised to read the text of the assets valuation report and pay special attention to the section headed Special Matters set out in the report.

**ASSETS VALUATION REPORT
OF THE VALUATION PROJECT IN RELATION TO THE PROPOSED
VERIFICATION OF PART OF THE TRANSFERRED INTANGIBLE ASSETS OF
SHANGHAI SIMCOM LIMITED AND SHANGHAI SUNRISE SIMCOM LIMITED**

China Alliance Valuation Report (2018) No. 060012

Shanghai Simcom Limited and Shanghai Sunrise Simcom Limited:

China Alliance Appraisal Co., Ltd. (hereinafter referred to as “CAA” or “we”) was instructed to assess the market value of the ownership of part of the intangible assets reported on the valuation benchmark date (i.e. 30 November 2017) in accordance with the China Assets Valuation Standards and other requirements under relevant laws and regulations, and adhered to the principles of objectivity, independence and impartiality, for the purpose of providing reference for the proposed verification of the ownership of part of the transferred intangible assets. Set out below are the details of the valuation and valuation conclusion:

**I. Engagement Parties, Intellectual Property Owner and Other Users of the Assets
Valuation Report under the Contract**

The Engagement Party I and intellectual property owner of this assets valuation project is Shanghai Simcom and the Engagement Party II and intellectual property owner is Shanghai Sunrise (together “Engagement Parties”). There are no other users of the assets valuation report under the asset appraisal engagement contract.

(I) Information of the Engagement Party I and intellectual property owner

1. Particulars of registration

Name:	Shanghai Simcom Limited (“Shanghai Simcom”).
Address:	6/F, Block 1, No. 633 Jinzhong Road, Changning District, Shanghai (上海市長寧區金鐘路633號1幢6層)
Legal Representative:	Xiong Lijuan (熊麗娟)
Registered Capital:	USD5 million
Type of enterprise:	limited liability company (joint venture established by entities of Taiwan, Hong Kong, Macao and entities of the PRC)
Term of operation:	2002-12-05 to 2032-12-04

Business scope: Design, research and development of wireless communication products and related software, sales of self-manufactured products, and provision of related technical services. (Businesses subject to approval in accordance with the law may be carried out after approval by the relevant departments)

Unified credit code: 913100007449431402

2. *Information of Shanghai Simcom*

Shanghai Simcom is principally engaged in the business of wireless communication module and mid-to-high end handset mother board and overall solutions. Based on 2G and 2.5G products, the company develops wireless modules for wireless desktop phones, wireless monitoring/centralized meter reading system, on-board units, smartphones, PDA, PCMCIA Wi-Fi card and POS. It has developed a number of handset motherboards and overall solutions including colour screen, GPRS, MMS, built-in camera and other functions that mainly target system integrators/operators of mid-to-high end mobile phones in the PRC.

As a GSM/GPRS wireless module supplier and solution provider with world-leading technology, Shanghai Simcom has launched a number of successful products in the market, which include the ITM110 (GSM), ITM100 (GSM/GPRS class 10) and the SIM100 (GPRS class 10) wireless modules of which it has the independent intellectual property rights. The module-based PCMCIA Wi-Fi card and wireless desktop phone solution (with MMI, Chinese font library and input method) customized by Shanghai Simcom for consumers had been inspected by and gained recognition from the market. Leveraging its judgement and technical capabilities in the technology development of the mobile communication industry, Shanghai Simcom developed and manufactured the embedded solution for TCP/IP GSM/GPRS modules, which are to be launched in the market, for domestic application system integrators. The solution, which can be widely applied in electric centralized meter reading system, monitoring system, on-board units and POS device, has significant cost and functionality advantages over existing products in the market.

(II) *Information of the Engagement Party II and intellectual property owner*

1. *Particulars of registration*

Name: Shanghai Sunrise Simcom Limited (“Shanghai Sunrise”)

Address: No. 888 Shengli Road, Qingpu Industrial Park, Shanghai (Songze Avenue 10055) (上海青浦工業園區勝利路888號(崧澤大道10055號))

Legal Representative:	Tang Rongrong (唐融融)
Registered Capital:	RMB200 million
Type of enterprise:	limited liability company (joint venture established by entities of Taiwan, Hong Kong, Macao and entities of the PRC)
Term of operation:	1993-11-09 to 2023-11-08
Business scope:	design, development and manufacture of LCD modules and other new flat panel displays, digital audio and video codec equipment, mobile communication products and related software products, industrial automatic and intelligent equipment, mechanical and electrical equipment set, sales of self-manufactured products and provision of related technical services and after-sale services. (Businesses subject to approval in accordance with the law may be carried out after approval by the relevant departments)
Unified credit code:	91310000607258489U

2. *Information of Shanghai Sunrise*

Shanghai Sunrise is the production base of Sim Technology Group Limited in Shanghai. It has a total site area of over 300 mus and a modern production workshop of over 100,000 sq.m. The company has a number of advanced imported chip mounters and is fully equipped with SPI/AOI/X-RAY inspection device. It also has years of experience in manufacture of smart phones, 3G modules, Wi-Fi cards and tablets. Production capabilities: small chip mounters 01005 and 0201, which reduce the distance between chips on 0.4mm pitch IC to 0.2mm; FPC production technology, dispensing technology, experience in POP manufacture, compatibility with 2G/3G network standards-GSM/WCDMA/CDMA2000/EVDO/TD-SCDMA, professional BGA repair, reballing technology, outstanding jig design and manufacture capability, comprehensive waterproof testing capability (IPX7).

II. Purpose of Valuation

According to the asset appraisal engagement contract, the purpose of this valuation report is to provide reference for the proposed verification of part of the intangible assets transferred by Shanghai Simcom and Shanghai Sunrise.

III. Subject and Scope of Valuation

The subject of this valuation is the value of the ownership of part of the intangible assets transferred by Shanghai Simcom and Shanghai Sunrise. The valuation covered the 2G, 3G and 4G wireless communication modules, GNSS modules and the technology, patents and trademarks related to the wireless communication modules as transferred by Shanghai Simcom and Shanghai Sunrise. Details of which are set out in the table below:

(I) Patents

Item	Name	No. of patent (application)	Date of application	Type of patent	Applicant	Status	Date of grant	Date of completion of transfer	Owner After the change
1	Method for automatic management of power consumption by the CPU in multitasking system (一種多任務系統中自動管理CPU功耗的方法)	200610119534.1	2006/12/13	Invention	Shanghai Sunrise	Granted	2010/4/14	2017/9/25	Simcom Wireless
2	Method for safe transmission and receipt of mobile message (安全的移動信息發送和接收方法)	200610147397.2	2006/12/15	Invention	Shanghai Sunrise	Granted	2010/11/10	2017/10/17	Simcom Wireless
3	Method of MUX protocol without adding kernel drive on Linux platform (實現Linux平臺下無需內核添加驅動的MUX協議的方法)	200710040820.3	2007/5/18	Invention	Shanghai Simcom	Granted	2013/1/23	2017/9/26	Simcom Wireless
4	Method for self-adapting velocity simulation I*C bus communication (一種實現自適應速率模擬I*C總線通信的方法)	200710172792.0	2007/12/21	Invention	Shanghai Simcom	Granted	2013/1/16	2017/9/30	Simcom Wireless
5	Circuit switching and switching method for built-in antenna and external antenna of GPS (GPS內外置天線切換電路及切換方法)	200810039970.7	2008/7/1	Invention	Shanghai Simcom	Granted	2012/10/3	2017/9/28	Simcom Wireless
6	Method for remote diagnosis and repair of 2G or 3G modules (一種2G或3G模塊遠程診斷修復的方法)	201010109374.9	2010/2/11	Invention	Shanghai Simcom	Granted	2016/1/13	2017/9/28	Simcom Wireless
7	Method for upgrading device and software via Wi-Fi (通過Wi-Fi無線網絡升級設備軟件的方法)	201010286933.3	2010/9/17	Invention	Shanghai Simcom	Granted	2016/3/23	2017/9/30	Simcom Wireless
8	Device and method compatible with 3G network standards (3G網絡制式兼容裝置及方法)	201110358344.6	2011/11/11	Invention	Shanghai Simcom	Granted	2015/6/17	2017/9/27	Simcom Wireless
9	Reporting method and device for received signal strength (接收信號強度上報方法及裝置)	201110422338.2	2011/12/16	Invention	Shanghai Simcom	Granted	2016/5/11	2017/10/20	Simcom Wireless

Item	Name	No. of patent (application)	Date of application	Type of patent	Applicant	Status	Date of grant	Date of completion of transfer	Owner After the change
10	Test circuit for communication modules (通訊模塊的測試電路)	201521137248.9	2015/12/31	Utility model	Shanghai Simcom	Granted	2016/6/22	2017/9/25	Simcom Wireless
11	LTE data card (一種LTE數據卡)	201520594904.1	2015/8/9	Utility model	Shanghai Simcom	Granted	2016/1/20	2017/9/29	Simcom Wireless
12	Mobile terminal, SIM card and validation method (移動終端、用戶識別模塊卡以及用於它們的驗證方法)	200510024847.4	2005/4/1	Invention	Shanghai Simcom	Granted	2009/5/13	2017/9/28	Simcom Wireless
13	Method for expanding capacity of mobile terminal (擴展移動終端能力的方法)	200810041737.2	2008/8/15	Invention	Shanghai Simcom	Granted	2014/1/22	2017/9/29	Simcom Wireless
14	Mobile terminal and method for call centers (實現呼叫中心的移動終端和方法)	201010246528.9	2010/8/6	Invention	Shanghai Simcom	Granted	2016/3/9	2017/9/29	Simcom Wireless
15	Device and method for emergency calls (實現緊急呼叫的裝置和方法)	201010248908.6	2010/8/10	Invention	Shanghai Sunrise	Granted	2016/9/21	2017/10/9	Simcom Wireless
16	Method for mobile communication terminal and its automatic selection of transmission protocol (移動通信終端及其自動優選傳輸協議的方法)	201110132614.1	2011/5/20	Invention	Shanghai Simcom	Granted	2017/3/29	2017/9/29	Simcom Wireless
17	Mobile terminal and method of data protection (移動終端及其數據保護方法)	201110398915.9	2011/12/5	Invention	Shanghai Simcom	Granted	2014/9/24	2017/9/28	Simcom Wireless
18	Auxiliary vehicle location system and assisted positioning method (輔助車載定位系統及車輛的輔助定位方法)	201110426426.X	2011/12/16	Invention	Shanghai Simcom	Granted	2016/1/20	2017/9/27	Simcom Wireless
19	Positioning antenna and mobile phone with positioning antenna (定位天線和包含其的天線)	201320068339.6	2013/2/5	Utility model	Shanghai Simcom	Granted	2013/7/17	2017/10/12	Simcom Wireless
20	Antitheft positioning device and method for electric vehicles (電力助動車的防盜定位裝置及方法)	201310242140.5	2013/6/18	Invention	Shanghai Simcom	Granted	2015/9/23	2017/9/27	Simcom Wireless
21	Detection device for mobile terminal (移動終端的檢測裝置)	201420736777.X	2014/12/1	Utility model	Shanghai Sunrise	Granted	2015/3/25	2017/10/10	Simcom Wireless

(2) Trademarks

Item	Trademark	Registrant	Trademark registration number	Category of approved use of commodities/ services	Date of transfer application
1		Shanghai Simcom	4239186	0907	2019/9/20
2		Shanghai Simcom	14455746A	0902	2019/9/20
3		Shanghai Simcom	4239185	3802	2019/9/20

The above patents were transferred to Shanghai Simcom Wireless Solutions Limited (“Simcom Wireless”) prior to the valuation benchmark date. The owner of the patent has been changed and Simcom Wireless has paid the consideration for the transfer as of the valuation benchmark date.

The Trademark Office of the State Administration for Industry and Commerce of the People’s Republic of China has accepted the application for the transfer of the above trademarks. As of the valuation benchmark date, the procedures for change of trademark owner has not been completed, transfer of Trademark Assets is in process and Simcom Wireless has paid the consideration for the transfer.

The total consideration for the above transfer of intangible assets is RMB90 million. Shanghai Simcom and Shanghai Sunrise have each entered separately into the trademark transfer agreement and technology transfer agreement with Simcom Wireless on 15 September 2017.

For this valuation, we only express opinion on the fair market value of the full title of the appraised assets as at the valuation benchmark date, without taking into consideration the outstanding liabilities of the abovementioned assets.

The specific scope of the valuation is subject to the intangible assets as reported and set out in the statement of assets verification and valuation confirmed by Shanghai Simcom and Shanghai Sunrise. The appraised patents and trademarks have no carrying value and have not been audited.

IV. Type and Definition of Value

Market value is selected as the value type in this valuation and its definition is as follows:

Market value refers to the estimated amount for a normal and fair trade of the appraised subject on the valuation benchmark date between a willing buyer and a willing seller acting in a rational manner and without any coercion.

V. Valuation Benchmark Date

As agreed in the asset valuation engagement contract, the valuation benchmark date of this valuation is 30 November 2017.

All prices and other parameters adopted for this valuation are valid on the valuation benchmark date.

The valuation benchmark date (i.e. 30 November 2017) is determined by the Engagement Parties based on the needs of the economic behaviour.

VI. Valuation Basis

(I) *Legal basis*

1. Decree of the President of the PRC No. 46, "Asset Appraisal Law of the PRC" (2 July 2016);
2. Decree of the President of the PRC No. 42, "Company Law of the PRC" (1 March 2014);
3. "Patent Law of the PRC (2008 revision)" (6th meeting of the 11th Standing Committee of the National People's Congress on 27 December 2008);
4. "Implementation Rules of the Patent Law of the PRC (2010 revision)" (9 January 2010);
5. "Trademark Law of the PRC (2001 revision)" (27 October 2001);
6. Decree of the State Council of the PRC No. 358, "Implementation Rules of the Trademark Law of the PRC" (3 August 2002);
7. Other laws and regulations related to this assets valuation.

(II) Basis of standards

1. Basic Rules for Assets Appraisal (Cai Zi [2017] No. 43);
2. Code of Ethics for Assets Appraisal (CAS [2017] No. 30);
3. Rule of Practicing for Assets Appraisal – Procedures for Assets Appraisal (CAS [2017] No. 31);
4. Rule of Practicing for Assets Appraisal – Assets Appraisal Report (CAS [2017] No. 32);
5. Rule of Practicing for Assets Appraisal – Assets Appraisal Engagement Contract (CAS [2017] No. 33);
6. Rule of Practicing for Assets Appraisal – Assets Appraisal Documents (CAS [2017] No. 34);
7. Rule of Practicing for Assets Appraisal – Intangible Assets (CAS [2017] No. 37);
8. Guidelines for Intellectual Property Rights Appraisal (CAS [2017] No. 44);
9. Guidelines for Legal Ownership of Subject of Assets Appraisal (CAS [2017] No. 48);
10. Guidelines for Patent Assets Appraisal (CAS [2017] No. 49);
11. Guidelines for Trademark Assets Appraisal (CAS [2017] No. 51);
12. The accounting standards and system for domestic enterprises issued by the Ministry of Finance of the People’s Republic of China.

(III) Basis of ownership

1. Patent certificate;
2. Trademark registration certificate;
3. Notice of Compliance of Formalities;
4. Notice of Acceptance of Application for Transfer of Trademark from the Trademark Office of the State Administration for Industry & Commerce;
5. Intangible Assets Transfer Agreement executed by Shanghai Simcom, Shanghai Sunrise and Simcom Wireless;
6. Other ownership documents provided by the intellectual property owner.

(IV) Basis of pricing

1. The prevailing loan interest rate of the People's Bank of China;
2. The relevant valuation information obtained by the valuer through on-site visits and market research.

(V) Other basis

1. The Asset Appraisal Engagement Contract entered into by the Engagement Parties and CAA.
2. Each type of assets valuation declaration form ("Declaration Form") provided by the intellectual property owner;
3. The income forecasts provided by the intellectual property owner;
4. The interview records of the intellectual property owner's personnel;
5. The "Details of Assets Valuation" provided by the Engagement Parties and the intellectual property owner;
6. Other related information provided by the intellectual property owner.

VII. Valuation Methodology*(I) Selection of valuation methodology*

The main valuation methods for intangible assets include cost method, income method and market method.

1. Market method determines the appraisal value of the subject intangible assets based on the trading price of comparable intangible assets. Given this method uses data derived from the actual market, it is a simple yet reliable method that best reflects the fair value of the intangible assets.

Market method can generally be divided into two phases: screening and adjustment. Screening refers to identifying reference transactions of intangible assets in the market that are equivalent or similar to the subject intangible assets in terms of nature of the assets, nature of the transaction, legal environment, strategies, scope and market environment etc. Adjustment refers to comparing the subject intangible assets with the reference intangible assets to determine the adjustment factors so as to arrive at the precise value of the subject intangible assets. Common comparison factors include location, service life, market potential, economic environment, financial standards and relevant investment.

The application of market method requires a mature and active market. The economic indicators and technical characteristics of the assets selected as references should be comparable with those of the appraised assets and at the same time these information are collectable. Given the difficulties in obtaining comparable references for the appraised assets, market method was not adopted.

2. Cost method estimates the cost incurred for repurchasing or constructing assets with functions similar to those of the appraised assets by an assumed asset purchaser on the valuation benchmark date for the purpose of determining the appraisal value of the subject assets.

Where it is difficult to quantify the demonstrated or potential profitability of the intangible asset, cost method uses the current replacement cost of the intangible asset to estimate its value pursuant to the principle of substitution. This method considers two basic factors into account, namely, the replacement cost of the intangible asset and the efficiency loss of the intangible asset, mainly the loss due to the deterioration of the function and economic value of the intangible asset.

Due to the incompleteness, weak relevance and virtual nature of the historical cost of the intangible assets, cost method is not able to truly reflect the intrinsic value of intangible assets.

3. The income method is a valuation method where the expected income of the appraised assets during the service life is discounted to the present value at an appropriate discount rate. When the income method is adopted in assets valuation, the appraised value of the assets is highly correlated to the effectiveness and the application of such assets. The value of an asset is proportional to its effectiveness and profitability.

The appraised intangible assets have a broad application prospect. Taking into account the analysis of the technology and its operating model in the future, it is more scientific and reasonable to adopt the income method for the valuation.

(II) Introduction of valuation method

The formula is as follows:

$$P = \sum_{i=1}^n \frac{R_i \times c}{(1+r)^i}$$

where:

P – Appraisal value of intangible assets

C – Income sharing ratio of the technology

R_i – Income for the i -th year

r – Discount rate

n – Income period

The income period is the period in which the intangible assets can be used to generate income effectively.

(III) Determination of major valuation parameters

1. Determination of sales income

The sales income from principal activities is derived from the sales of IOT wireless communication module and relevant integrated products. In terms of product specification, the general product types include 2G, 3G, 4G and GNSS products. We analyze corporate operation, historical sales and unit prices of products, the positioning and business planning of each product type of the Engagement Parties to give a reasonable forecast of product sales and prices. The Engagement Parties' core products are 2G/3G/4G communication modules and GNSS positioning modules which are mainly used in areas such as in-vehicle communication device (automobile), smart grid (electricity) and mobile payment devices (POS). The sales of the products of the Engagement Parties are mainly through distributorship, while products are offered through direct sales in smaller number of cases in mainland China. The Engagement Parties control the distribution channels by managing their distributors.

The Engagement Parties provided information on outstanding orders as of the valuation benchmark date and potential orders for December 2017, and predicted the sales of products for 2017 based on such information. With respect to the forecast period in and after 2018, the forecasted sales volume trend of each product type was determined by taking into account the Engagement Parties' operation strategies and the positioning of each product type; and together with the production capacity of the subcontractors and the historical sales to determine the forecasted sales, which represented clearly the forecast period of five years since the valuation benchmark date, i.e., between 2017 and 2022, for which we basically adopted the forecast of the management. For the forecast period between 2023 and 2025, and for prudence, we performed valuation based on the sales income for 2022 without taking into consideration any further growth in future.

Set out below is our forecast of sales income:

Forecast Year	2017 (December)	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
<i>RMB'000</i>									
Sales income – Wireless communication modules	177,676	1,500,000	1,750,000	1,925,000	2,117,500	2,329,250	2,329,250	2,329,250	2,329,250
Sales income growth %	–	–	17	10	10	10	0	0	0

2. *Determination of Comparable Companies*

The selection criteria of comparable companies for the valuation:

- (1) The comparable company should be profit-making in recent years;
- (2) The comparable company should only issue A shares denominated in RMB;
- (3) The comparable company should be engaged in the communications industry.

Based on the above criteria, we used the WIND information system (萬得信息技術股份有限公司 (“Wind”)) to screen all the telecommunication companies of which the shares are listed on the Shenzhen Stock Exchange or Shanghai Stock Exchange. After further analysis, four comparable companies were selected.

No.	Name of the comparable company	Stock Code
1	Hytera Communications Corporation Limited	002583.sz
2	Fujian Star-Net Communication Co., Ltd.	002396.sz
3	Fiberhome Telecommunication Technologies Co., Ltd.	600498.sh
4	Guangzhou Haige Communications Group Incorporated Company	002465.sz

3. *Determination of Royalty*

We noted that the listed companies in the same industry manufactured the same or similar products as those produced with the subject intangible assets, and selected four listed companies in the same industry as our comparable companies and estimated the contribution rate of technology with reference to the capital structure of these listed companies.

According to the 2012-2016 financial reports of the above four comparable companies, we are able to calculate the capital structure of these companies, which represented the proportion of working capital, tangible non-current assets and intangible non-current assets. We further analyzed the revenue from principal activities, profit and cash flow of the above four comparable companies, where it can be deduced that the cash flows of these companies are derived from all of the capital (i.e. working capital, tangible non-current assets and intangible non-current assets). Therefore, the cash flows generated from intangible assets should be the product of the percentage of intangible assets in its capital structure and the cash flows from principal activities. Besides, we noted that the above-mentioned intangible assets are a combination of various intangible assets, including technologies, trademarks and goodwill. Given that the ultimate sales income is

closely related to technologies, trademarks and brands of the companies, high technical and quality standards constitute an important part in product quality and brand value.

We thereby determined the cash flow generated from combination of various intangible assets and the percentage of such cash flow in the sales income from principal activities of the same period, i.e. the contribution of combination of various intangible assets to the sales income from principal activities.

We calculated the proportional average value of cash flows contributed by the combination of various intangible assets of comparable companies to the sales income, then based on this result, we estimated the royalty rate of technology and adjusted the proportional contribution of intangible assets (i.e. patents and trademark) of the Target Companies to determine the technology royalty rate of appraised patent and trademark.

Through the application of the above calculation, details of the cash flows contributed by sales income of patent technology are set out in the following table:

Item	Cash flow contribution by patented technologies									
	2017 (December)	2018	2019	2020	2021	2022	2023	2024	2025	
Sales income Rmb'0000	(1)	17,768	150,000	175,000	192,500	211,750	232,925	232,925	232,925	232,925
Royalty rate of patented technologies in sales income	(2)	0.323%	0.308%	0.293%	0.279%	0.266%	0.253%	0.241%	0.121%	0.061%
Cash flow contributed by patented technologies in sales income Rmb'0000	(3)= (1)×(2)	57	462	513	537	563	589	561	282	142

Details of the cash flow contributed by the sales income of trademark are as follows:

Item	Cash flow contribution by trademark									
	2017 (December)	2018	2019	2020	2021	2022	2023	2024	2025 (no end date)	
Sales income Rmb'0000	(1)	17,768	150,000	175,000	192,500	211,750	232,925	232,925	232,925	232,925
Royalty rate of trademarks in the sales income	(2)	1.078%	1.078%	1.078%	1.078%	1.078%	1.078%	1.078%	1.078%	1.078%
Cash flow contribution by trademarks in the sales income Rmb'0000	(3)= (1)×(2)	192	1,617	1,887	2,075	2,283	2,511	2,511	2,511	2,511

4. *Determination of the discount rate of intangible assets (patents)*

Discount rate, also known as expected return on investment, is an important parameter in valuation based on the income method. The discount rate used in this valuation is the return on investment of the intangible assets of the comparable companies.

(1) Determination of weighted cost of capital

WACC (Weighted Average Cost of Capital) refers to the expected aggregate return on investment. WACC is the weighted average between the expected return on equity and the return on debentures adjusted for income tax.

$$\text{WACC} = R_e \frac{E}{D + E} + R_d \frac{D}{D + E} (1 - T)$$

where: WACC= weighted average cost of capital; E= equity value; Re= expected return on equity; D= value of interest-bearing debt; Rd= expected return on debt; T= corporate income tax rate (15%).

A. Determination of risk free return (Rf)

We calculated the yield of treasury bonds with maturity date ranging from 8 to 10 years from the valuation benchmark date in the Shanghai and Shenzhen stock markets. The average yield of all treasury bonds is taken as the risk free yield of the valuation. The average yield of the above-mentioned treasury bonds (3.67%) is taken as the risk free yield in patent valuation.

Note: The Rf is taken as 3.67% in the calculation of the discount rate of intangible assets (patents).

B. Equity risk premium (ERP)

The arithmetic mean or geometric mean of annual return of constituent stocks of CSI 300 Index is used for the calculation of the arithmetic mean or geometric mean of ERP. Having taken into account the fluctuation of China's stock markets, we decided to calculate the ERP for a 10-year period. In other words, for the return on investment of each constituent stock, its expected return on investment is based on the average return on investment over ten years. Since geometric mean is a better indicator of the growth of yield, we believed it is more practical to use Cn, which was derived from geometric mean, to calculate ERP. The expected EPR of the return in excess in the domestic stock markets is 6.64%.

C. Equity market risk factor of the comparable companies (β)

Wind is a company in China engaged in the research on β and provides the formula to calculate β . In this valuation, we applied the β calculator offered by Wind to calculate β of the comparable companies, with CSI 300 Index chosen as the stock market index. The reason of choosing CSI 300 Index was that it was the first cross-market index in the PRC, linking Shanghai and Shenzhen markets. The constituent stocks of the index are also leading stocks in respective industries and have active trading.

The equity market risk factor β was calculated to be 0.7271.

D. Return on equity (CAPM)

We adopted the Capital Asset Pricing Model or “CAPM”:

$Re = Rf + \beta \times ERP + Rs$ (Rs refers to the rate of specific risk excess premium)

The expected return on equity was calculated to be 12.81%.

E. Return on debt (Rd)

The valuation adopted the prevailing one-year loan rate (4.35%) as the expected annual return on debt.

F. Weighted Average Cost of Capital (WACC)

The WACC was calculated to be 11.89%.

(2) Discount rate of intangible assets

The above-mentioned calculation of WACC represents the expected rate of return on all assets of an enterprise. The assets of the enterprise comprise current assets, fixed assets and intangible assets. The rate of return on each type of assets and the weighted average cost of capital can be represented by the following formula:

$$WACC = (W_c \times R_c + W_f \times R_f + W_i \times R_i) \times (1-T)$$

where:

Wc: the percentage of current assets (capital) over total assets;

Wf: the percentage of fixed assets (capital) over total assets;

Wi: the percentage of intangible assets (capital) over total assets;

R_c: the expected rate of return on the investment in current assets (capital);

R_f: the expected rate of return on the investment in fixed assets (capital);

R_i: the expected rate of return on the investment in intangible assets (capital);

T: corporate income tax rate (15%).

We believed that the risk of investment in current assets is the lowest, therefore the expected rate of return is also the lowest. We adopted the average one-year bank loan rates (i.e. 4.35%) as the expected rate of return before tax for investment in current assets. The risk of investment in fixed assets is higher than that of investment in current assets, hence the expected rate of return on such investment is higher than that of investment in current assets. Therefore, we adopted the weighted average ratio between return on equity and return on debt before taxation (30%:70%) as the expected rate of return on fixed assets (capital). The return on debt (4.9%) is derived from the interest rate of bank loans with a term of over five years.

The above-mentioned formula is modified as follows:

$$R_i = \frac{\frac{\text{WACC}}{(1 - T)} - W_c \times R_c - W_f \times R_f}{W_i}$$

R_i refers to the expected rate of return on the investment in intangible assets.

According to the formula for the above calculation of the rate of return on the investment in intangible assets, the rate of return on the investment in intangible assets is 18.80%

5. *Determination of the discount rate of intangible assets (trademarks as intangible assets)*

The calculation of the discount rate of trademarks (as intangible assets) is the same as that of patents (intangible assets).

where: R_f=4.13% (the yield of treasury bonds with a term of over 10 years)
ERP=6.02% (over 10 years)

The discount rate of trademarks (as intangible assets) was calculated to be 18.80%.

6. *Determination of the service life of intangible assets*

It is generally considered that each technology has its economic service life. The longer the economic service life, the higher value is the technology and vice versa. The economic service life of a technology mainly depends on the period of time before replacing by new technology. It is also affected by the change of national industrial policies and the decrease in the profitability of technologies and etc.

Based on the characteristics of the technologies and products, it is predicted that the patents (intangible assets) have a remaining economic service life of 8.17 years, which will end in 2025. The perpetual period is adopted for the forecast of operation period of trademarks (intangible assets) and the enterprises.

VIII. Valuation Procedures

The valuation procedures comprise four stages.

(I) *Preliminary preparation works*

During this stage, the valuer negotiates with the Engagement Parties to get a clear understanding of the basic requirements of the valuation project. After analyzing and judging its own professional competence, independence, and operational risk, it accepts the engagement and enters into the assets appraisal engagement contract with the Engagement Parties. A project leader is then appointed to form the valuation team and formulate the valuation plan. The valuer also assists the intellectual property owner to complete the Declaration Form for assets valuation and prepare the appraisal information as required.

(II) *On-site investigation and collection of appraisal data*

Based on the specific circumstances of the valuation engagement, the valuation team obtains information through various means (e.g. on-site interview, verification, surveying, inspection) pursuant to the valuation standards and other relevant requirements. It also review the scope of valuation, investigate the current state of the appraised subject and research on the legal title of the appraised subject.

(III) *Appraisal and estimation stage*

The data collected by the valuer is analyzed, summarized and organized as necessary to form the basis for valuation. Based on the appraisal subjects, value type, valuation data collected and other related factors, the valuation team selects the appropriate valuation method, formula and parameters for analysis, calculation, and judgment, which leads to the preliminary valuation results.

(IV) Preparation and submission of valuation report

Based on the preliminary valuation results on each type of assets, each valuation team prepares the relevant explanations of valuation. After confirming that the asset valuation results set out in the explanations are correct, and there is no duplication or omission in the valuation, the valuation team will consolidate and analyze the results of assets valuation pursuant to the valuation explanation to form the valuation conclusion and prepare the assets valuation report. In accordance with the relevant laws and regulations, assets valuation standards and the internal quality control system of the valuer, necessary internal review on the valuation report and valuation procedures is carried out. The valuer also communicate with the Engagement Parties and its designated parties about the valuation report, and submit the official assets valuation report to the Engagement Parties pursuant to the requirements of the engagement contract of the assets valuation business.

IX. ASSUMPTIONS OF VALUATION

1. The specific purpose of valuation stated herein is the basic assumption of this valuation project;
2. We assumed that there will be no unforeseeable material changes of the external economic environment after the valuation benchmark date;
3. The relevant basic information and financial information provided by the intellectual property owner and the Engagement Parties is true, accurate and complete;
4. The financial report and transaction data of comparable companies, on which the valuer relied, are correct and reliable;
5. We assumed that the service life of the appraised technology will be not affected by any significant breakthroughs of other relevant technologies;
6. Unless otherwise specified, this valuation does not take into account the impact of the pledges and guarantees that may be undertaken by the related assets of the intellectual property owner on the appraised value, or the impact of change in national macroeconomic policy as well as acts of God and other force majeure on the appraised value;
7. This valuation represents a reasonable forecast based on the existing market conditions, and does not take into account any unpredictable significant market changes or fluctuations in the future (e.g. political turmoil, economic crisis, hyperinflation);
8. This valuation assumes that shareholders will receive cash flow from sales income during the year.

In the event of any change of the aforesaid conditions, the valuation conclusion will become invalid in general.

X. Valuation Conclusion

The market value of the ownership of the intangible assets was valued at RMB88.7 million as at the valuation benchmark date (i.e. 30 November 2017), which comprised ownership of invention patents and utility model patents with an appraised value of RMB4.2 million and ownership of trademarks with an appraised value of RMB84.5 million.

XI. SPECIAL MATTERS

Users of this valuation report are advised to pay attention to the following special matters in this valuation report:

1. The patents appraised as instructed by the Engagement Parties were transferred to Simcom Wireless prior to the valuation benchmark date and the owner of the patent has been changed. The Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China has accepted the application for transfer of the trademark appraised. As of the valuation benchmark date, the formalities for the change of trademark owner has not been completed, and transfer of Trademark Assets is in process. Simcom Wireless has paid the consideration for the transfer of intangible assets.
2. The intangible assets transferred by Shanghai Simcom and Shanghai Sunrise have not been used in the respective companies and were provided to Shanghai Simcom Wireless Solutions Limited (芯訊通無線科技(上海)有限公司) ("Simcom Wireless") at nil consideration in the past, for the purpose of creating benefits in Simcom Wireless.

According to the contribution by intangible assets of Shanghai Simcom, Shanghai Sunrise and Simcom Wireless, patented technology and trademarks account for 15% and 50% of the appraised assets respectively.

Among which, the trademarks transferred by Shanghai Simcom are domestic trademarks while Simcom Wireless holds overseas trademarks. Based on the historical sales and sales forecast of Simcom Wireless, the ratio of domestic sales to overseas sales is approximately 6.5:3.5, i.e., the domestic trademarks held by Shanghai Simcom, which are in the process of the transfer application, account for 65% of the total trademarks contribution. Most of the patent assets transferred by Shanghai Simcom and Shanghai Sunrise are core patented technology. The ratio of such assets to the patented technology held by Simcom Wireless is approximately 2:8, which means that the invention patents and utility models transferred by Shanghai Simcom and Shanghai Sunrise account for 20% of the total patents. The valuation is based on the contribution by Shanghai Simcom, Shanghai Sunrise and Simcom Wireless.

3. The valuation conclusion of this report reflects the value of the appraised assets for the purpose of this report as at the valuation benchmark date, assuming there is no changes of going concern of the assets and the external macroeconomic environment.
4. This valuation conclusion has not taken into consideration of the potential expenses and taxes from the process of registration or change of titles of the appraised subject. It has not accounted for the impact of the above guarantee and security on the valuation or possible changes of tax obligation arising from the increase or decrease of valuation. It also has not been adjusted for any taxes arising from appreciation of assets. The valuation conclusion shall not be taken as a guarantee of the realizable value of the appraised subject.
5. The legal obligation of the valuer and the appraisal firm is to make professional judgement on the value of the assets for the purpose of the report. The valuation largely relies on the information provided by the Engagement Parties and the appraised subjects. We do not assume responsibility as to the legality, completeness and truthfulness of the information regarding management decision, business license, ownership certificates, accounting documents, list of assets and documents issued by other intermediaries.
6. The list of assets of the appraised subject are reported and confirmed with seal by the Engagement Parties and the relevant parties, which shall bear responsibility as to the truthfulness, legality and completeness of the information provided.
7. The ownership certificate and relevant information involved in the assets valuation report is provided by the Engagement Parties and the appraised subject, which shall assume responsibility as to its truthfulness and legality. The responsibility of the valuer is to conduct necessary inspection and disclosure on the information and its sources, but not to provide any guarantee as to the title of ownership of the appraised assets. It is beyond the scope of practice for the valuer to ascertain or provide opinions on the title of ownership of the appraised assets.
8. During the effective term after the valuation benchmark date, where there is change of the quantity and pricing standard of the assets, it shall be dealt in accordance with the following principles:
 - (1) where there is change of the quantity of assets, the amount of assets shall be adjusted according to the original valuation method;
 - (2) where there is change of the pricing standard of the assets, which greatly affects the valuation result of assets, the Engagement Parties shall timely engage qualified assets valuation firm to determine the valuation;
 - (3) for any changes of quantity or pricing standard of the assets after the valuation benchmark date, the Engagement Parties shall make due consideration and adjust accordingly when determining the actual value of the assets.

Users of the assets valuation report shall note the effect of the above special matters on the valuation conclusion.

XII. RESTRICTIONS ON THE USE OF THE VALUATION REPORT

Set out below are the restrictions on the use of this valuation report:

- (1) Scope of application: this assets valuation report can only be used for the purposes and usage of stated herein;
- (2) The assets appraisal firm and assets valuer take no responsibility for any non-compliance with the requirements of relevant laws and administrative rules within the scope of application stated in the report in the use of the valuation report by the Engagement Parties and other users;
- (3) The assets valuation report can only be used by the Engagement Parties, other users of the report under the assets appraisal engagement contract and users of the report stated in the relevant laws and regulations. Any other institutes and individuals may not use the report;
- (4) Users of the assets valuation report should understand the valuation conclusion correctly. The conclusion does not represent the realizable value of appraised subject, and shall not be construed as a guarantee for the realizable value of appraised subject;
- (5) The extraction, quotation and disclosure of all or any part of the valuation report in public media requires the review of content by the appraisal firm, unless otherwise provided in laws and regulations and agreed by the relevant parties;
- (6) The valuation report shall not be used without the signature of the assets valuers and affixation of seal of the appraisal firm;
- (7) The valuation conclusion shall be valid for one year from the valuation benchmark date.

XIII. DATE OF THE ASSETS VALUATION REPORT

The assets valuation report is dated 18 January 2018.

The valuation report is prepared in Chinese and English. Both language versions are equally authentic. In the event of any discrepancy between the two versions, the Chinese version shall prevail.

China Alliance Appraisal Co., Ltd.

Wang Xueliang (王學良) Zhuang Chao (莊超)

Public Valuer

Public Valuer

18 January 2018

The following are the letters both dated 18 January 2018 from (1) the Auditor to the Directors; and (2) CIMB confirming that they are satisfied that the forecast has been made by the Directors with due care, consideration and objectivity and on a reasonable basis. The letters have been prepared for the purpose of incorporation in this circular.

1. LETTER FROM THE AUDITOR

INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE INTANGIBLE ASSETS OF SHANGHAI SIMCOM LIMITED AND SHANGHAI SUNRISE SIMCOM LIMITED TRANSFERRED

TO THE DIRECTORS OF SIM TECHNOLOGY GROUP LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by China Alliance Appraisal Co., Ltd. dated 18 January 2018 of the intangible assets of Shanghai Simcom Limited and Shanghai Sunrise Simcom Limited as at 30 November 2017 transferred to Shanghai Simcom Wireless Solutions Limited (the “**Valuation**”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and will be included in a circular dated 18 January 2018 to be issued by SIM Technology Group Limited (the “**Company**”) in connection with the major transaction in relation to the wireless communication modules business (the “**Circular**”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Circular (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a

comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the intangible assets of Shanghai Simcom Limited and Shanghai Sunrise Simcom Limited transferred.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

18 January 2018

2. LETTER FROM THE FINANCIAL ADVISER

The Board of Directors
SIM Technology Group Limited
Unit 2908, 29th Floor,
248 Queen's Road East,
Wanchai
Hong Kong

18 January 2018

Dear Sirs,

We refer to the Valuation Report dated 18 January 2018 prepared by China Alliance Appraisals Co., Ltd. (the “**Valuer**”) in relation to the fair market value of the IP Assets (the “**Valuation**”) as at 30 November 2017. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the circular of SIM Technology Group Limited dated 18 January 2018 relating to the Transaction (the “**Circular**”). We note that the Valuation has been developed based on discounted cash flow analysis, which is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

We have reviewed the forecasts upon which the Valuation has been made and have discussed with you and the Valuer the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also reviewed the letter from Deloitte Touche Tohmatsu, the Auditor of the Company, dated 18 January 2018 addressed to you, as set out in Appendix III to the Circular regarding the calculations and arithmetical accuracy of the Valuation upon which the forecasts have been made.

On the basis of the foregoing, and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Valuer on the Valuation, for which the Valuer and the Company are responsible, we are of the opinion that the forecasts upon which the Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you. Our report has been issued for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

Yours faithfully,
For and on behalf of
CIMB Securities Limited

Marcella Chan
Managing Director

William Cheung
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules to be notified to the Company and the Stock Exchange.

Long positions in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of shareholding in the Company as at the Latest Practicable Date
Wong Cho Tung ("Mr Wong") (Note 1)	Interests in controlled corporations	1,209,084,000	–	1,209,084,000	47.24%
	Beneficial owner	3,098,000	–	<u>3,098,000</u>	<u>0.12%</u>
				<u>1,212,182,000</u>	<u>47.36%</u>
Yeung Man Ying ("Mrs Wong") (Note 2)	Interest in controlled corporation	734,857,000	–	734,857,000	28.71%
	Beneficial owner	3,418,000	–	<u>3,418,000</u>	<u>0.13%</u>
				<u>738,275,000</u>	<u>28.84%</u>

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares held	Total	Approximate percentage of shareholding in the Company as at the Latest Practicable Date
Chan Tat Wing, Richard	Beneficial owner	–	5,382,000	5,382,000	0.21%
Liu Jun	Beneficial owner	1,000,000	936,000	1,936,000	0.08%
Tang Rongrong	Beneficial owner	–	4,446,000	4,446,000	0.17%

Notes:

1. Mr Wong controls more than one-third of the voting power of 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 and Simcom (BVI) is wholly-owned by Mr Wong. Therefore, Mr Wong is deemed to be interested in all the 454,227,000 shares and 20,000,000 shares held by Intellipower and Simcom (BVI) respectively in the Company by virtue of Part XV of the SFO respectively.
2. 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. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, so far as was known to any Director, there was no other person who had interest or a short position in the Shares, underlying Shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of the Company.

Long positions in Shares

Name of shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company as at the Latest Practicable Date
Info Dynasty Group Limited (Note 1)	Beneficial owner	734,857,000	28.71%
Intellipower Investments Limited (Note 2)	Beneficial owner	454,227,000	17.75%

Notes:

1. The relationship between Info Dynasty and Mr Wong and the relationship between Info Dynasty and Mrs Wong is disclosed under the paragraph headed “2. Disclosure of Interests of Directors and Chief Executive” above.
2. The relationship between Intellipower and Mr Wong and the relationship between Intellipower and Mrs Wong is disclosed under the paragraph headed “2. Disclosure of Interests of Directors and Chief Executive” above.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (a) the Asset Purchase Agreement (as defined in the Company’s circular dated 28 February 2017 (the “**February Circular**”));
- (b) the Technology Assignment Contract (as defined in the February Circular);
- (c) the Trademark License Agreement (as defined in the February Circular);
- (d) the Leasing Agreements (as defined in the February Circular);
- (e) a sale and purchase agreement dated 22 September 2017 entered into between the Company, Simcom International, Queclink Wireless, Richjoy and the Target Companies in respect of the Transaction and the IP Transfer (the “**Queclink Wireless SPA**”);
- (f) a supply contract dated 22 September 2017 entered into between Shenyang SIM, Simcom Electronic and Queclink Wireless in respect of the procurement of parts and materials and the production of wireless communication modules (the “**Queclink Wireless Supply Contract**”);
- (g) a tenancy agreement dated 22 September 2017 entered into between Shanghai SIM Technology and Simcom Electronic in respect of the leasing of the Properties (the “**Queclink Wireless Tenancy Agreement**”);
- (h) a termination agreement dated 7 December 2017 entered into between the Company, Simcom International, Queclink Wireless, Richjoy, the Target Companies, Shenyang SIM and Shanghai SIM Technology to terminate the Queclink Wireless SPA, the Queclink Wireless Supply Contract and the Queclink Wireless Tenancy Agreement;
- (i) the Sale and Purchase Agreement;
- (j) the Supply Contract; and
- (k) the Tenancy Agreement.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, none of the members of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. DIRECTORS' COMPETING INTERESTS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules, as if the Directors were controlling shareholders.

8. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group, nor had any Director had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. QUALIFICATIONS AND CONSENTS OF EXPERTS

The qualifications of the experts who have been named in this circular or have given opinions or advice which are contained herein are set out below:

Name	Qualification
CIMB	A corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
China Alliance	Independent valuer of the IP Assets
Deloitte	The auditor of the Company

- (a) As at the Latest Practicable Date, neither CIMB, China Alliance nor Deloitte had any interest, direct or indirect, in any member of the Group or any right (whether legally enforceable or not), to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) As at the Latest Practicable Date, neither CIMB, China Alliance nor Deloitte had any interest, direct or indirect, in any assets which have been since 31 December 2016, the date up to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Each of CIMB, China Alliance and Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion in this circular of its letter of advice or report and/or references to its name in the form and context in which it appears.

10. GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at Unit 2908, 29th Floor, 248 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms Chan Chi Yin, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours (Saturdays and public holidays excepted) from 9 a.m. to 1 p.m. and from 2 p.m. to 6 p.m. at the principal place of business of the Company at Unit 2908, 29th Floor, 248 Queen's Road East, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017;
- (c) the Valuation Report;
- (d) the letter from Deloitte, the text of which is set out in this circular;
- (e) the letter from the Financial Adviser, the text of which is set out in this circular;

- (f) the written consents as referred to in the section headed “Qualifications and Consents of Experts” in this appendix;
- (g) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (h) the February Circular; and
- (i) this circular.

NOTICE OF SGM



SIM Technology

SIM Technology Group Limited

晨訊科技集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2000)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of SIM Technology Group Limited (the “**Company**”) will be held at 10:00 a.m. on Tuesday, 13 February 2018 at 24th Floor, Admiralty Centre I, 18 Harcourt Road, Admiralty, Hong Kong to consider and, if thought fit, pass the following resolutions as ordinary resolutions.

ORDINARY RESOLUTIONS

“THAT:

- (a) the sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 21 December 2017 entered into between SIM Technology Group Limited, Simcom International Holdings Limited, 深圳日海通訊技術股份有限公司 (Shenzhen Sunsea Communication Technology Co., Ltd.*), Shanghai Simcom Electronic Limited (上海芯通電子有限公司) and Shanghai Simcom Wireless Solutions Limited (芯訊通無線科技(上海)有限公司) in respect of the sale and purchase of all the equity interest in Shanghai Simcom Electronic Limited (上海芯通電子有限公司) and Shanghai Simcom Wireless Solutions Limited (芯訊通無線科技(上海)有限公司) and the transactions contemplated thereunder (including the IP Transfer (as defined in the Company’s circular dated 18 January 2018 (the “**Circular**”)) (a copy of each of the Sale and Purchase Agreement and the Circular has been produced to the meeting marked “A” and “B”, respectively, and initialled by the chairman of the meeting for identification purposes) be and are hereby approved, ratified and confirmed; and
- (b) any one of the directors of the Company (the “**Directors**”) be and is hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement, the IP Transfer and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or wavier of such documents or any terms thereof, which are not fundamentally different from those as provided in the Sale

* For identification purposes only

NOTICE OF SGM

and Purchase Agreement) as are, in the opinion of the Directors or the duly authorised committee, in the interest of the Company and its shareholders as a whole.”

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

Hong Kong, 18 January 2018

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal Place of business
in Hong Kong:*
Unit 2908, 29th Floor
248 Queen’s Road East
Wanchai
Hong Kong

Notes:

- (1) Any member of the Company holding two or more Shares entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, subject to the provisions of the bye-laws of the Company, vote in his/her/its stead. A proxy needs not be a member of the Company.
- (2) In the case of joint holders of a Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she/it was solely entitled thereto; but if more than one of such joint holders are present at the above meeting, the vote of the person, whether attending in person or by proxy, whose name stands first on the register of members of the Company in respect of such Share shall be accepted to the exclusion of the vote(s) of the other joint holder(s).
- (3) To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company’s principal place of business in Hong Kong at Unit 2908, 29th Floor, 248 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the above meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude any member from attending and voting at the above meeting (or any adjournment thereof) in person.

As at the date of this notice, the executive Directors are Ms Yeung Man Ying, Mr Wong Cho Tung, Ms Tang Rongrong, Mr Chan Tat Wing, Richard and Mr Liu Jun; and the independent non-executive Directors are Mr Liu Hing Hung, Mr Wang Tianmiao and Mr Wu Zhe.